

#93

**COMPLETE**

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Page 2: Your contact details

**Q1 (i) For individuals:** Respondent skipped this question

**Q2 (ii) For organisations:**

Name of organisation: Syrp  
 Contact person name: s 9(2)(a)  
 Position:

**Q3 (iii) How long has your business been operating in New Zealand?** 6 to less than 10 years

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** 10 - 19

**Q5 (v) What industry sector does your business operate in?** M Professional, scientific, & technical

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Project Grant: 2016  
 R&D Growth Grant: 2017

**Q7 (vii) Has your organisation ever received any other R&D government support?** Yes,  
 If yes, please specify names of grant(s)/support.:  
 We have received 2 R&D project grants, and are on an R&D growth grant

Page 3: Questions asked in the discussion document

**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

These are key areas that make NZ tick. They are also enterprises that contract R&D and design services from other private sectors. Removing their ability to innovate will have long term effects on the efficiency and quality of our public services.

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**Q9 Q2** How well does this definition apply to business R&D carried out in New Zealand?

Not very well at all. Not all R&D is scientific. Our business focuses on industrial design principles to drive innovation. We solve wide ranging problems and develop advanced technical products by using design led innovation. These result in products and services that are both innovative and can be commercialized. We also believe that R&D is about developing people, skills and knowledge that can impact our business growth, and the business our people will move onto, or start.

R&D doesn't just happen in laboratories. Its happens in all work places that encourage positive change. It happens where process and creativity are encouraged in equal measures.

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**Q10 Q3** Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

It excludes design. It excludes all innovation that doesn't fit inside your definition of "scientific methods". The methods used to drive innovation in them self require R&D. Our process for R&D should be developed as much as the end result it self.

We need to support the R&D happening in all business with a clear goal of developing our people and business to be more forward thinking, to be more creative, adaptive, innovative and flexible as the world changes.

I don't believe this will happen following a scientific method. But by encouraging our businesses to develop their own methods.

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**Q11 Q4** Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

Every sector that can see innovative improvements outside of "scientific method".

You haven't defined what your "Scientific method". This term is loose and inappropriate to the modern methods of R&D and innovation.

You also make a massive assumption that removing technical or scientific uncertainty is the most important part of R&D, and that this will overall help New Zealand grow.

I don't believed that just solving scientific problems has real benefit for New Zealand. We need to be supporting the industries that commercialise the Scientific problems solving as much as we need to solve the problems to start with.

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**Q12 Q5** What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

It is widely known, some may say scientifically proven, that invention is trumped by innovation.

The new tax incentive seems to focus more on invention than on innovation. By shifting this focus you put New Zealand in a position where we may end up being a country of firsts that are quickly forgotten.

To advance science and technology we need to innovate, not just invent. Usable, scaleable advancements in technology come from innovation, not from invention.

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**Q13 Q7** Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

- Research in social sciences and humanities.

The most life changing challenges that will effect the next generation of New Zealanders are driven from social problems.

If you funding from social sciences, you take away the ability to do deep R&D. You start you funding looking for a solution to solve a problem, instead of looking for the true cause of a problem. You could spend billions on R&D to cure Diabetes. Or you could spend a fraction of that on R&D into social issues and successfully solving the route cause.

The same goes for environmental issues. Humans are at the centre of these issues, so our R&D should start there.

- commercial, legal and administrative aspects of patenting, licensing or other activities

If you want NZ businesses to protect what they develop you need to support this protection. Its is expensive, and most companies simply wont do it, or do it badly. Make a call on if you think NZ companies should protect the IP being generated, if that is a goal for NZ and back it up by helping them do it.

- pre-production activities, such as demonstration of commercial viability, tooling-up and trial runs

Trial runs are a core part of R&D if you are pushing the boundaries of what is possible. Some trial runs, may have no real R&D benefit, others will have enormous benefit. As we move forward into the future of manufacturing we need to stay ahead. We need to be pushing what is possible with new technologies. This drives future R&D, design, and innovation.

**Q14 Q8** Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

User experience design, and research into how we interact.

This effect all parts of our society and can have massive impact on the well being of the next generation of New Zealanders. From the way we teach and learn, to the way we punish and rehabilitate. By investing in deep R&D in our social sciences we can make changes far reaching.

R&D in people and our society is essential to make the changes we need to be able to weather the technological, economical, and environmental changes we are seeing worldwide.

**Q15 Q9** What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

R&D with no other purpose, may not result in the overall outcomes we hope for new zealand.

**Q16 Q10** What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

Advantages may be that it promotes more investment in staff.

The down side is that R&D is expensive, well beyond just the people. Without the correct tools, prototypes, testing costs etc you will work more slowly. You will change you strategy to suit the R&D grants, not to suit the best R&D process.

**Q17 Q11** What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

As above,

More people, doesn't always speed up R&D. The solution should fit the problem, not the grant.

Having a 3D printer is much faster than having a team of craftspeople.

**Q18 Q12** Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

Respondent skipped this question

**Q19 Q13** What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

Removal of scientific method.

**Q20 Q14** Are there reasons why continuity rules should not apply to tax credits? Please describe.

Respondent skipped this question

**Q21 Q15** Is the minimum threshold set at the right level?

**No.**  
If 'no', please provide further details.:  
We started our business by self funding our R&D with far less than 100K.

**Q22 Q16** How important is a cap or a mechanism to go beyond the cap? Please provide further details.

If you are a small business in a tax loss and you get a future tax break this has little value.

**Q23 Q17** What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Respondent skipped this question

**Q24 Q18** What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Respondent skipped this question

**Q25 Q19** Are there any other risks that need to be managed? Please describe.

Respondent skipped this question

**Q26 Q20** Are there risks with extending penalties to external advisors in this way?

Respondent skipped this question

R & D Tax Incentive

**Q27** Q21 What is the right level of information required to support a claim?

depends on the project and claim type

**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Respondent skipped this question

**Q29** Q23 What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Yes,  
Contact details:  
s 9(2)(a)

**Q31** Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

Respondent skipped this question

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#17

**COMPLETE**

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Page 2

**Q1 (i)** For individuals

Respondent skipped this question

**Q2 (ii)** For organisations

Name of organisation

Syrp

Contact person name

s 9(2)(a)

Position

**Q3 (iii)** How long has your business been operating in New Zealand?

6 to less than 10 years

**Q4 (iv)** How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.

10 – 19

**Q5 (v)** What industry sector does your business operate in?

Professional, scientific, &amp; technical

**Q6 (vi)** Has your organisation ever received a R&D project or R&D growth grant?

R&amp;D Project Grant

2015

R&amp;D Growth Grant

2017

**Q7 (vii)** Has your organisation ever received any other R&D government support?

Yes,

If yes, please specify names of grant(s)/support.:

We have received 2 R&amp;D project grants, and are currently on an R&amp;D growth grant.

**Q8** How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.)

Don't know

**Q9** How much R&D does your organisation expect to carry out in the coming year?

§ 9(2)(b)(ii)

Page 3: Responses to questions in the consultation document

**Q10 Q1** What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

We rely very heavily on the current R&D grants to be able to hire new R&D staff and expand our team. We are very cash flow sensitive as we need to be able manufacture our products long before we receive income from them. This lock up most of our available cash and slows our future R&D ability.

**Q11 Q2** What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

Respondent skipped this question

**Q12 Q3** What impact will the proposed transition arrangements have on your R&D programme over the next few years?

This will reduce the available spend we have on R&D. It will mean we need to limit all forward thinking R&D in times of low revenue. It will result in us achieving a higher EBIT post R&D, but negatively effect our ability to invest in long term profit building projects.

**Q13 Q4** Please provide any other comments about the proposed transition arrangements.

We currently spend well above the 2% R&D goal. Our internal goals is to be spending over 10% revenue on R&D. By reducing the government incentive we currently get through existing grants from we will not be able to freely expand our team as we have been able to in the past.

**Q14 Q5** For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

previously we have had positive EBIT, but last year we made extensive investment into R&D. As a result we have just had a year with negative profit. § 9(2)(b)(ii) and has been supported by R&D grants. We will see a return on this R&D in the current financial year now that the products are coming to market. Under the new system we would not have been able to have maintained enough cash flow to continue to hire staff, nor would we have been able to take on the in depth R&D that has been possible. Getting a tax break after the fact, only effects our profit post R&D, not cash flow during R&D which is more important for us.

#94

**COMPLETE**

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Page 2: Your contact details

**Q1 (i) For individuals:**

Name s 9(2)(a)  
 Email address

**Q2 (ii) For organisations:**

Name of organisation **Pertronic Industries Ltd**  
 Contact person name s 9(2)(a)  
 Position

**Q3 (iii) How long has your business been operating in New Zealand?** **10 years or more**

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** **100 or more**

**Q5 (v) What industry sector does your business operate in?** **C Manufacturing**

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Growth Grant **2014, 2015, 2016, 2017**

**Q7 (vii) Has your organisation ever received any other R&D government support?** **Yes,**  
 If yes, please specify names of grant(s)/support.:  
 R&D Student  
 Grants

Page 3: Questions asked in the discussion document



**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

No Comment

**Q9 Q2** How well does this definition apply to business R&D carried out in New Zealand?

The requirement that the R&D should "advance science or technology through the resolution of scientific or technology uncertainty" is too restrictive. This wording is more applicable to the requirements for a patent application.

**Q10 Q3** Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

The definition excludes R&D which we think should be eligible. In our view all work on product prototypes should be eligible. We often have to invest time and effort into updating our products for a wide range of reasons and make prototypes to ensure that we have got things right. Sometimes the prototype gives us the result that we want, & sometimes we have to do redesign work & make another, and another, and another, until we get it right. Resource put in to improving products should qualify as R&D. New Zealand firms should be given every encouragement to keep the design of their products as up to date as possible.

**Q11 Q4** Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

As per the answer to question 2, the requirement that the R&D should "advance science or technology through the resolution of scientific or technology uncertainty" is too restrictive. This wording is more applicable to the requirements for a patent application. The application of "scientific method" is not inherently a problem,

**Q12 Q5** What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

If the materiality test was applied as described it would make most product improvement work ineligible to be classified as R&D.

**Q13 Q7** Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

No Comment

**Q14 Q8** Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

No Comment

**Q15 Q9** What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

If ongoing product improvement work was classified as being "business as usual" this would be a problem.

**Q16 Q10** What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

If eligible expenditure is limited to R&D labour costs, this favours say software firms over firms that make real products. In our case the cost of the material that goes into constructing a prototype is a significant part of our R&D cost.

**Q17 Q11** What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Allocating a fixed percentage has the advantages of being simple. It may be unfair if there are high support costs related to the R&D effort.

**Q18 Q12** Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

No Comment.

**Q19 Q13** What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

The requirement that the R&D should "advance science or technology through the resolution of scientific or technology uncertainty" is too restrictive. This wording is more applicable to the requirements for a patent application and would rule out most software R&D.

**Q20 Q14** Are there reasons why continuity rules should not apply to tax credits? Please describe.

No Comment

**Q21 Q15** Is the minimum threshold set at the right level? **Yes**

**Q22 Q16** How important is a cap or a mechanism to go beyond the cap? Please provide further details.

The proposed cap of \$120 million R&D expenditure is not a problem for us.

**Q23 Q17** What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Ministerial discretion is bad policy. Businesses need certainty, not political favouritism. I support preregistration as a means of improving compliance and improving certainty of outcome.

**Q24 Q18** What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

I support the transparency proposals.

**Q25 Q19** Are there any other risks that need to be managed? Please describe.

No Comment

**Q26** Q20 Are there risks with extending penalties to external advisors in this way?

No Comment

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**Q27** Q21 What is the right level of information required to support a claim?

No Comment

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**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

No Comment

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**Q29** Q23 What integrity measures do you think Inland Revenue should use?

No Comment

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**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Yes,

Contact details:

s 9(2)(a)

**Q31** Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

New Zealand manufacturers need to produce well designed up to date products to compete with imported products and to compete in international markets. Any assistance that helps in this way is beneficial both for the firm and the wider community. Also NZ manufacturers are competing against manufacturers from other countries who are the recipients of R&D tax credits in their jurisdictions.

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**From:** s 9(2)(a)  
**To:** [RD Incentive](#)  
**Subject:** R&D Tax Incentives  
**Date:** Wednesday, 30 May 2018 3:44:44 p.m.  
**Attachments:** [image003.png](#)

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Dear MBIE,

Please accept this as additional commentary in support of the submission that we have made using your questionnaire template.

Our company is a "Hi Tech" manufacturer of electronic equipment (fire detection systems) and s 9(2)(b)(ii) on new product development. Naturally we are supportive of any appropriate R&D tax incentive scheme. The nature of our business is such that we would undertake R&D even if a tax incentive scheme was not in place. However the tax incentives enable us to do more R&D than we would otherwise be able to if the scheme was not in place.

My concern with the proposal document is that the definition of R&D appears to be extremely restrictive if it was literally applied. The referenced Frascati Manual 2015 says "For an activity to be an R&D activity it must satisfy five core criteria. The activity must be; novel, creative, uncertain, systematic, and transferable and/or reproducible." The "novel, creative, uncertain", requirements can fairly be applied as criteria for research. However product development is quite different.

If a company wishes to make improvements to the design of an existing product it is quite a stretch to claim that these criteria will apply. Most product improvements are incremental and are in response to customer requests/feedback for improved features, or in response to changes in technology. All New Zealand manufacturers need to keep the design of their products as up to date as possible. No company can succeed offering obsolete or outdated products into a global market. The R&D tax incentive assists with the costs incurred in the design of new or updated products.

As a minimum, we suggest that all expenditure incurred in building a prototype (or prototypes) should be classified as R&D. Please note the reason that we say prototypes (i.e. plural) is that when the first prototype has been completed there are usually so many suggestions as to what could have been done there is invariably a second or third prototype constructed before the product goes in to production.

For your consideration please.

Regards,

s 9(2)(a)



**Advanced Automatic Fire  
Detection  
Design and Manufacture**

s 9(2)(a)

Pertronic Industries Ltd  
17 Eastern Hutt Road, Wingate 5019  
Wellington, New Zealand  
[www.pertronic.co.nz](http://www.pertronic.co.nz)

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#71

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Page 2: Your contact details

**Q1 (i) For individuals:**

Respondent skipped this question

**Q2 (ii) For organisations:**

Name of organisation  
 Contact person name  
 Position

Market2x Group Limited

s 9(2)(a)

**Q3 (iii) How long has your business been operating in New Zealand?**

2 to less than 6 years

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.**

6 - 9

**Q5 (v) What industry sector does your business operate in?**

I Transport, postal, & warehousing

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Project Grant

2016, 2017

**Q7 (vii) Has your organisation ever received any other R&D government support?**

Yes,  
 If yes, please specify names of grant(s)/support.:  
 From April 2018 we are receiving a R&D Growth Grant

Page 3: Questions asked in the discussion document

**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

Respondent skipped this question

## R & D Tax Incentive

<b>Q9</b> Q2 How well does this definition apply to business R&D carried out in New Zealand?	Respondent skipped this question
<b>Q10</b> Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?	Respondent skipped this question
<b>Q11</b> Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?	Respondent skipped this question
<b>Q12</b> Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?	Respondent skipped this question
<b>Q13</b> Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.	Respondent skipped this question
<b>Q14</b> Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?	Respondent skipped this question
<b>Q15</b> Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.	Respondent skipped this question
<b>Q16</b> Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.	Respondent skipped this question
<b>Q17</b> Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.	Respondent skipped this question
<b>Q18</b> Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.	Respondent skipped this question
<b>Q19</b> Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?	Respondent skipped this question
<b>Q20</b> Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe.	Respondent skipped this question

## R & D Tax Incentive

**Q21** Q15 Is the minimum threshold set at the right level?

Respondent skipped this question

**Q22** Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.

Respondent skipped this question

**Q23** Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Respondent skipped this question

**Q24** Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Respondent skipped this question

**Q25** Q19 Are there any other risks that need to be managed? Please describe.

Respondent skipped this question

**Q26** Q20 Are there risks with extending penalties to external advisors in this way?

Respondent skipped this question

**Q27** Q21 What is the right level of information required to support a claim?

Respondent skipped this question

**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Respondent skipped this question

**Q29** Q23 What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Respondent skipped this question

**Q31** Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

We are an early stage technology company that is loss making. The current Growth Grant system gives positive cash flow on a quarterly basis which directly helps reduce monthly R&D expenses. It enables the company to employ additional R&D workers and have part of the cost reimbursed quickly. Changing to the R&D tax incentive scheme will be less beneficial to our business due to the tax credit system (for a loss making business) and the timing of cash flows.



#72

**COMPLETE**

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Page 2: Your contact details

**Q1 (i)** For individuals:

Respondent skipped this question

**Q2 (ii)** For organisations:

Name of organisation

NZRise Incorporated Society

Contact person name

s 9(2)(a)

Position

**Q3 (iii)** How long has your business been operating in New Zealand?

Respondent skipped this question

**Q4 (iv)** How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.

Respondent skipped this question

**Q5 (v)** What industry sector does your business operate in?

Respondent skipped this question

**Q6 (vi)** Has your organisation ever received a R&D project or R&D growth grant?

Respondent skipped this question

**Q7 (vii)** Has your organisation ever received any other R&D government support?

Respondent skipped this question

Page 3: Questions asked in the discussion document

**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

As a community of New Zealand owned Digital Technology businesses, NZRise members would expect the Government funded sector to continue to invest in Research and Development activities and meet their obligations to stimulate the economy through engaging NZ Owned companies, or joint venture (or equivalent) models with NZ owned businesses.

Therefore we would support the exclusion with the explicit expectation that this will not result in a reduction of R&D activity by those organisations.

**Q9 Q2** How well does this definition apply to business R&D carried out in New Zealand?

NZRise agree with the path of leveraging internationally recognised definitions. This definition, while not specifically reflective of the Software Industry does broadly categorise the activities our members undertake - however the use of the term “scientific methods” does concern us with new, emerging and leading edge technology R&D pushing the boundaries of the widely understood definition. We consider this places NZ at risk of being left behind should the term be applied too rigidly in a legacy manner.

A broader definition similar to UK government one would be more appropriate for the ICT / digital technology / software industry:

“Projects that count as R&D

The work that qualifies for R&D relief must be part of a specific project to make an advance in science or technology. It can't be an advance within a social science like economics or a theoretical field like pure maths.

The project must relate to your company's trade - either an existing one, or one that you intend to start up based on the results of the R&D.

To get R&D relief you need to explain how a project:

looked for an advance in science and technology had to overcome uncertainty  
tried to overcome this uncertainty couldn't be easily worked out by a professional in the field

Your project may research or develop a new process, product or service or improve on an existing one.

source: <https://www.gov.uk/guidance/corporation-tax-research-and-development-rd-relief>”

**Q10 Q3** Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

At this stage MBIE have not supplied enough information to clearly understand treatment of Software based R&D under this definition (and not Q13 strengthens this assertion).

We would recommend MBIE look to the Australian Federal Governments eligibility practice of self assessment (see definition below) noting their system is designed to stimulate growth of newer and early stage businesses vs MBIE's proposal which is designed to only benefit large, established and multi-national businesses.

Australian Federal Government Eligibility:

You assess for yourself whether or not your entity is eligible to register R&D activities and claim R&D tax offsets in any given year.

Broadly speaking, your eligibility to claim R&D tax offsets will depend on whether or not you are an R&D entity and, if you are, whether or not you have incurred notional deductions of at least \$20,000 on eligible R&D activities.

You don't have to use a registered person to access the program but there do seem to be entities offering assistance in formulating applications in exchange for a % fee of the rebate.

More info: <https://www.ato.gov.au/business/research-and-development-tax-incentive/about-the-program/>

**Q11 Q4** Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

The Labour / NZ First Government has a stated goal that the ICT sector become the 2nd largest contributor to GDP by 2025. This will involve a number of levers be applied to achieve that goal. One of these is keeping New Zealand owned businesses in NZ - R&D is just one of the reasons software companies leave, or choose to undertake R&D in other jurisdictions (where the benefits are far greater than proposed here).

Software R&D by it's nature is leading edge where the "scientific methods" are developed in parallel with the research itself. For NZ to meet it's goals the interpretation and use of the terminology will need to be flexible enough to enable high growth in the ICT / digital technology / software industry. NZRise is concerned a traditional or legacy scientific interpretation will force NZ companies to leave our shores.

**Q12 Q5** What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

NZRise agree with the statement "The outcome of R&D is inherently uncertain; it is not necessary that the R&D activity be successful to be eligible for the tax incentive." We consider application of a material test would severely disadvantage startups, early stage and growing NZ owned businesses and would provide established, listed and multi-national businesses with a significant competitive advantage. We would strongly discourage this materiality test be applied.

**Q13 Q7** Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

NZRise agree with "the assumption that this type of research is not a focus of business R&D may no longer be valid because it is becoming more embedded in digital R&D" however we note that many of the excluded activities do apply to a digital world eg: copyright, patent and licensing are of increasing relevance and in themselves as new technologies emerge the creation of those assets themselves involve elements of R&D to define and protect.

**Q14 Q8** Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

NZRise note an increase number of new digital technology / ICT / software businesses are working in the social science space and will therefore need to be eligible for the same incentives as other industries. These lines in a digital world are blurry which will continue for years to come so this legislation needs to be future proof.

**Q15 Q9** What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Respondent skipped this question

**Q16 Q10** What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

Overseas - the commercial reality in the ICT / digital technology / software industry is we undertake our R&D in the jurisdiction most supportive and beneficial for our businesses eg: the UK or Australia or even specific states of Australia. These proposed changes will drive more and more jobs, NZ owned businesses and R&D activities offshore, therefore while we support this notion the wider context of excluding SME's, startups, early stage and growth companies from realising any benefits for their R&D investment will result in NZ companies starting and designing themselves to realise advantages in other jurisdictions which is contrary to benefit of our economy.

Expenditure - NZRise would support option 2 - "on a broader range of direct and indirect costs (including options for determining appropriate overhead expenditure)" as would serve to encourage more NZ owned businesses to undertake R&D activities.

Direct Labour Costs - NZRise agree with elements of this approach to the extent it seems sensible with the preferred outcome of increasing jobs - HOWEVER - the proposed threshold "A business will need to spend a minimum of \$100,000 on eligible expenditure, within one year, to qualify for the Tax Incentive." will leave these R&D benefits inaccessible to the majority of New Zealand owned businesses - again providing material advantages to multi-nationals, disadvantaging startups, early stage and growth companies and will result in more and more NZ owned companies electing to undertake their R&D (and therefore employment growth) in other jurisdictions.

We recommend MBIE seriously consider the impact on the Labour / NZ First government's goal of ICT as the 2nd largest contributor to GDP when applying such a limitation.

**Q17 Q11** What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

NZRise would support either approach to a greater or lesser extent. While we understand this proposal may not be attractive to capital-intensive sectors we would strongly recommend the growing ICT / digital technology / software sector is weighted as important when considering overhead costs set as a percentage of R&D labour costs and will make this proposal more attractive for our sector.

We draw MBIE's attention to the Australian Federal eligible entities approach:

The Research and development (R&D) tax incentive replaced the R&D tax concession from 1 July 2011. It provides targeted R&D tax offsets designed to encourage more companies to engage in R&D.

**Q18 Q12** Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

As stated software R&D is increasingly important to our economy. NZRise members undertake R&D for the explicit purpose of creating commercial products, the majority of which is funded through other revenues re-invested or through capital raised. An attractive R&D regime will directly support creation and growth of the ICT / digital technology / software industry to support the government's GDP contribution goals. Many of our most successful businesses (Datacom, Catalyst etc) have grown through this method.

**Q19 Q13** What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

NZRise again draw MBIE's attention to the UK and Australian approaches, designed specifically to enable job and economic growth in the software industry and recognising loss making as a stage in that growth cycle. We recommend rather than further entrenching compliance regimes such as defining core activities for software that MBIE consider a growth focused model designed to encourage more companies to engage in R&D.

eg: Australia (Federal)

The Research and development (R&D) tax incentive replaced the R&D tax concession from 1 July 2011. It provides targeted R&D tax offsets designed to encourage more companies to engage in R&D. The incentive has two core components. Entities engaged in R&D may be eligible for:

\* 43.5% refundable tax offset for eligible entities with an aggregated turnover of less than \$20 million per annum, provided they are not controlled by income tax exempt entities

\* 38.5% non-refundable tax offset for all other eligible entities (entities may be able to carry forward unused offset amounts to future income years).

Eligibility:

Companies assess for themselves whether or not their entity is eligible to register R&D activities and claim R&D tax offsets in any given year. This significantly reduces the opportunity cost of applying for the tax incentives while light touch inspections before payment and retrospective audits prevent system abuse. The ability to withdraw the R&D credits as cash or credit towards other tax accounts (i.e. PAYG tax, GST, etc) also supports startups who may be unprofitable in search of growth pathways.

Broadly speaking, the eligibility to claim R&D tax offsets will depend on whether or not the company is an R&D entity and, if you are, whether or not they have incurred notional deductions of at least \$20,000 on eligible R&D activities.

More info: <https://www.ato.gov.au/business/research-and-development-tax-incentive/about-the-program/>

or the UK:

There are also significant tax incentives available to investors who invest in early stage/risky companies. The Seed Enterprise Investment Scheme (SEIS) offers both income tax and capital gains tax relief to qualifying investors who subscribe for shares in qualifying companies. In detail:

Investors can obtain 50% relief for income tax on the cost of shares, on a maximum annual investment of £100,000.

No capital gains tax is paid on profits earned on shares held for more than three years. Capital gains which are realised before three years has expired, but which are reinvested into qualifying SEIS shares, will also be exempt from capital gains tax. Again, the annual limit is £100,000

Loss relief – Should the company go bankrupt, investors may claim loss relief on their investment which is equal to half of their total investment multiplied by their tax rate.

100% inheritance tax relief (provided the investments have been held for at least two years at time of death).

**Q20 Q14** Are there reasons why continuity rules should not apply to tax credits? Please describe.

NZRise agrees there should be a minimum R&D expenditure limit for the reasons described HOWEVER we disagree with the MBIE suggestion of \$100,000 and the MBIE assertion this is the cost of a Full Time Equivalent employee (perhaps for Government employees) does not reflect the median wage of \$49,868 as published by StatsNZ. We would recommend the Australian example of \$20,000 will provide SME's, startups, early stage companies and those who are new to undertaking R&D with an opportunity to access this credit. As currently stated we consider again this threshold materially advantages established, large and multi-national businesses.

## R & D Tax Incentive

**Q21 Q15** Is the minimum threshold set at the right level?

**No,**

If 'no', please provide further details.:

No. As stated in our answer to Q14, NZRise consider the minimum threshold to be too high and will not create the stimulation this legislation is seeking to gain by excluding startups and early stage businesses from participating in the R&D credit process.

**Q22 Q16** How important is a cap or a mechanism to go beyond the cap? Please provide further details.

As stated by MBIE the test is to ensure R&D claims of this size are genuine, therefore a cap and mechanism for application and additional scrutiny to ensure very large claims are genuine would be a sensible approach. MBIE could consider a proportion to revenue model as an alternative bar for very large claims, this could serve as an effective mechanism to stimulate R&D investment in NZ within very large and multi-national businesses as means of accessing their claim.

**Q23 Q17** What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

NZRise support these concepts at the threshold noted - not at a lower threshold.

**Q24 Q18** What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

NZRise support Open Government and Transparency at every level.

We note and understand MBIE's case for multi-nationals to undertake R&D in New Zealand. We would recommend consideration for IP retention and continued investment in employment growth (as a result of those R&D initiatives) staying in New Zealand noting current examples where R&D is undertaken in NZ yet commercialised in other jurisdictions resulting in no economic growth realised within the NZ economy.

We again remind MBIE of the Labour / NZ First government goal to have the ICT sector as the 2nd largest contributor to GDP, and the associated goal of closing the digital divide by 2020 - these cannot be realised through multi-nationals alone. To truly transform our economy we need a thriving ecosystem of early stage companies growing into Xero and Datacom sized businesses, therefore R&D incentives that are accessible and designed to stimulate growth at the early stage are pivotal.

**Q25 Q19** Are there any other risks that need to be managed? Please describe.

Creating an R&D credit system as a "one size fits all" will risk disadvantaging the ICT / digital technology / software industry through over compliance, high entry level R&D commitments and limited incentives for new businesses to be formed. It is our understanding that this sector invests heavily in R&D, ahead of NZ norms, so providing conditions to attract, retain and grow this sector holds significant advantages over continuing to back winners and keep NZ on the grass (which is a flawed strategy).

The real risk to NZ is ICT / digital technology / software companies with either a) not incorporate in NZ or b) elect to undertake R&D and growth in more attractive jurisdictions resulting in a stagnating economy. We should be looking to what countries like Australia and the UK to support new innovative, future focused businesses to choose NZ.

Many NZRise member companies already undertake R&D activities in both the UK and Australia now for precisely this reason under the current regimes - NZ is not attractive enough for them to continue this investment here. The risk of undertaking these changes is NZ will become less attractive.

**Q26 Q20** Are there risks with extending penalties to external advisors in this way?

NZRise consider any system or process adopted by government should be open and accessible enough to operate without advisors otherwise the only participants will be those with deep pockets who can engage advisors - therefore we would recommend MBIE keep it simple to participate.

That said we agree extending penalties to external advisors for the large claims is a reasonable position to take.

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**Q27 Q21** What is the right level of information required to support a claim?

Submission of (unaudited) financial accounts, a simple project proposal form describing the R&D activity and the potential for a process-light follow-up questionnaire for claims under \$1m. Over \$1m a more rigorous process should be applied.

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**Q28 Q22** What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

NZRise assumes MBIE is keen to outsource this to Xero or similar. We strongly advise this is a "red herring", a simple form for submission will be adequate directly submitting to the IR or MBIE website. For examples Jobs for NSW uses google forms. We recommend the delivery mechanism be decoupled from the legislation discussion.

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**Q29 Q23** What integrity measures do you think Inland Revenue should use?

The NZ taxation system in NZ is based on a reasonable level of trust, use of qualified tax advisors and our generally accepted uncorrupt businesses practises. We consider IR should apply these same principles for claims under \$1m, more rigour be applied to claims over that threshold.

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**Q30 Q24** Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Yes,

Contact details:

s 9(2)(a)

Released Consistent with the Official Information Act 1982



**Q31 Q25** Please provide any other feedback you may have on the proposed R&D tax incentive here.

NZRise is a membership based organisation promoting and supporting the growing Digital Technology sector, representing the views of NZ owned businesses in this space.

We consider these proposed changes have the potential to drive more and more jobs, NZ owned businesses and R&D activities offshore, the thresholds selected and compliance described will exclude SME's, startups, early stage and growth companies from realising any benefits for their R&D investment. This will result in NZ companies starting and designing themselves to realise R&D advantages in other jurisdictions which is contrary to benefit of our economy, or the Labour / NZFirst goal of ICT as the 2nd largest contributor to GDP by 2025.

We note MBIE included a statement with regards Callaghan and Transition from Growth Grants, yet did not address this within the 23 questions supplied. We would strongly recommend while the growth grants regime is not meeting NZ's goals an alternative, incentive aligned, opportunity focused mechanism should be considered.

Question 6 is missing from your form, our response:

Bringing a software product to market does, by it's nature include aspects of the exclusion list prior to any revenue derived eg: market validation which can in turn lead to pivots in research and development activities so could be considered as an important element.

NZRise consider applying such a rigid standard could disadvantage the ICT / digital technology / software industry. Taking a broader approach, such as the UK model, designed to stimulate business growth would be more appropriate than an inclusion / exclusion test.

UK Government model:

The UK Govt provides R&D credits ranging from 26% if the business is profitable to 33.35% if the business is not profitable as long as the org spends a minimum of £20,000 on R&D. These seems to be wide ranging examples of what qualifies and also the existence of services to help organisations claim their refunds (for example, PwC has this online tool which takes a percentage of the resultant claim: <https://www.niftyforms.co.uk/pricing>)

There are also significant tax incentives available to investors who invest in early stage/risky companies. The Seed Enterprise Investment Scheme (SEIS) offers both income tax and capital gains tax relief to qualifying investors who subscribe for shares in qualifying companies.

In detail:

Investors can obtain 50% relief for income tax on the cost of shares, on a maximum annual investment of £100,000.

No capital gains tax is paid on profits earned on shares held for more than three years. Capital gains which are realised before three years has expired, but which are reinvested into qualifying SEIS shares, will also be exempt from capital gains tax. Again, the annual limit is £100,000

Loss relief – Should the company go bankrupt, investors may claim loss relief on their investment which is equal to half of their total investment multiplied by their tax rate.

100% inheritance tax relief (provided the investments have been held for at least two years at time of death).

source: <https://www.gov.uk/guidance/corporation-tax-research-and-development-rd-relief>



#73

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 4:05:26 PM  
**Last Modified:** Friday, June 01, 2018 4:53:31 PM  
**Time Spent:** 00:48:04  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:**

Name s 9(2)(a)  
 Email address

**Q2 (ii) For organisations:**

Name of organisation **Parrot Analytics Limited**  
 Contact person name s 9(2)(a)  
 Position

**Q3 (iii) How long has your business been operating in New Zealand?** 2 to less than 6 years

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** 20 - 49

**Q5 (v) What industry sector does your business operate in?** M Professional, scientific, & technical

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Project Grant 2014, 2015  
 R&D Growth Grant 2016, 2017

**Q7 (vii) Has your organisation ever received any other R&D government support?** Yes,  
 If yes, please specify names of grant(s)/support.:  
 R&D loss tax credit for the 2016 financial year.

Page 3: Questions asked in the discussion document

## R & D Tax Incentive

**Q8** Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

Respondent skipped this question

**Q9** Q2 How well does this definition apply to business R&D carried out in New Zealand?

Respondent skipped this question

**Q10** Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

Respondent skipped this question

**Q11** Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

Respondent skipped this question

**Q12** Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

There would need to be very clearly defined rules of materiality so that nothing that was eligible under the Growth grant would fail the test. Having the Callaghan account managers involved as part of the the Growth Grant applications dramatically helps businesses navigate grey areas of eligibility and would also need to be in place for the Tax incentive.

**Q13** Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

Respondent skipped this question

**Q14** Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

Respondent skipped this question

**Q15** Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

This would significantly impact the R&D claimable particularly for smaller business where there may not be enough resources to clearly separate out R&D from business as usual activities. Businesses such as start-ups who arguably are at the forefront of innovation rely heavily on the cashflow from the R&D grants to continue to make advancements in their products. They will suffer dramatically from having an entire activity excluded. The difference in amount claimable could potentially be the difference between whether the company lives or dies.

**Q16** Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

This would reduce a significant amount of claimable R&D expenditure for technology companies that need to pay huge platform costs that is needed for their R&D. Without this Grant subsidising the cost, it may mean many potential R&D projects aren't even able to begin.

## R & D Tax Incentive

**Q17 Q11** What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Respondent skipped this question

**Q18 Q12** Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

The risk here is there can be a large R&D project where a small consideration is paid for parts of the output and it causing the whole project to be ineligible.

**Q19 Q13** What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

Respondent skipped this question

**Q20 Q14** Are there reasons why continuity rules should not apply to tax credits? Please describe.

As mentioned in the discussion document more and more of our R&D in NZ comes from start-up companies. These R&D start-up cycles have frequent funding rounds which means every year or 2 the composition of the shareholding could significantly change. This almost guarantees these companies lose all their tax losses before they manage to generate revenue to claim these losses. If the continuity rule is applied, it could mean that the benefits of the scheme will be lost for a large section of people that the scheme is intending to help. If the tax credit scheme removes the continuity requirement, these start-up companies will at least be able to recover some of the tax losses accumulated from their initial years and in the years they need it the most (which is what the tax loss credit system seeks to address).

**Q21 Q15** Is the minimum threshold set at the right level?

Respondent skipped this question

**Q22 Q16** How important is a cap or a mechanism to go beyond the cap? Please provide further details.

Here I want to comment on the claim percentage of 12.5%. As a transition from the Growth Grant (40%) this is a significant drop for businesses who have forecasted this line item to help support their R&D in the next few year. For every \$1m spent on R&D, it's a \$275,000 reduction in the incoming cash. If there is to be a transition, we believe it should be a stepped transition rather than a sudden drop in the claimable rate.

**Q23 Q17** What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Respondent skipped this question

**Q24 Q18** What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Respondent skipped this question

**Q25 Q19** Are there any other risks that need to be managed? Please describe.

Respondent skipped this question

**Q26 Q20** Are there risks with extending penalties to external advisors in this way?

Respondent skipped this question

R & D Tax Incentive

**Q27** Q21 What is the right level of information required to support a claim?

It seems the proposed system allows for claims once per financial year. The Growth Grant currently allows for quarterly claims which means companies get in injection of cash every quarter to help them to pay for ongoing R&D throughout the year. The proposed scheme should continue to allow for quarterly pay outs otherwise it will dramatically affect the cashflow and days to zero for start-ups.

**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Respondent skipped this question

**Q29** Q23 What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Yes,  
Contact details:  
s 9(2)(a)

**Q31** Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

Respondent skipped this question

Released Consistent with the Official Information Act 1982

#74

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Thursday, May 31, 2018 3:07:33 PM  
**Last Modified:** Friday, June 01, 2018 4:56:09 PM  
**Time Spent:** Over a day  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:** Respondent skipped this question

**Q2 (ii) For organisations:** Respondent skipped this question

**Q3 (iii) How long has your business been operating in New Zealand?** Respondent skipped this question

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** Respondent skipped this question

**Q5 (v) What industry sector does your business operate in?** Respondent skipped this question

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?** Respondent skipped this question

**Q7 (vii) Has your organisation ever received any other R&D government support?** Respondent skipped this question

Page 3: Questions asked in the discussion document

**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

Government Organisations should also be encouraged to engage in R&D activities that support innovation in their sectors.

**Q9 Q2** How well does this definition apply to business R&D carried out in New Zealand?

The definition is broad and well defined by OECD Frascati Model. However, this needs to be retained during the application phase. The interpretation and difference between the NZ IAS 38 also needs to be clear.

The Frascati definition covers activities such as utilising new products to create new processes and services. R&D also includes modification and improvements of those products. Ideally the application should cover the cost of innovative products from overseas that can be used to demonstrate new products, services, business models and provide NZ companies with the opportunity to improve and adapt those products. This will be important for NZ to be able to quickly move up the learning curve and not re-invent the wheel.

Expenditure on capital equipment from overseas required to conduct R&D needs to be considered as part of the R&D costs if being paid by NZ tax resident companies for eligible R&D.

There also needs to be provision for attracting research that was developed overseas to continue R&D including technical development and pilots here in NZ.

**Q10 Q3** Does this definition exclude R&D that you think should be eligible, please illustrate with examples? **Respondent skipped this question**

**Q11 Q4** Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples? **Respondent skipped this question**

**Q12 Q5** What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

The inclusion of a materiality test raises questions around who determines the materiality and what is the methodology used. Materiality tests for R&D for which outcomes are not known by definition can only be subjective. This may lead to undesirable outcomes, exclusion of valuable R&D or promote and direct R&D into areas that are popular, or have a section of scientific community or political support, and therefore perceived to be more material at a particular point in time.

**Q13 Q7** Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

Support activities should be included as eligible R&D costs. These support costs can be significant for companies conducting R&D that is particularly novel. ie. when creating products and services for new markets or new industry activity.

**Q14 Q8** Please provide any examples where social science research is/has been a core part of business R&D in New Zealand? **Respondent skipped this question**

**Q15 Q9** What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Dual purpose activities should be allowed. This could be managed via a percentage time or activities spent on R&D Vs other activities. This may be important for companies conducting a high percentage of R&D.

**Q16 Q10** What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

We strongly disagree with limiting eligible expenditure to direct R&D labour costs.

1. This disadvantages R&D that produces a physical product and requires the use of physical facilities.
2. It also assumes that the company can find and employ suitably qualified R&D staff at their location of their business which can be challenging in regional areas - in fact arguably all regions in NZ outside of Auckland.
3. R&D projects can require multiple specialist skills that may not require full time employment
4. The treatment of founders conducting R&D needs to be considered. Founders working for little or no salary in start-ups also should be eligible at what would be their effective (full market rates). For early stage companies there is no income to pay market rates.
5. Contractors, consultants and other external provider costs should also be eligible - they will be required to increase R&D intensity in SMEs and start-ups. (as proposed direct and indirect expenditure costs)

**Q17 Q11** What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

We strongly recommend against setting overhead costs as a percentage of R&D costs as this disadvantages R&D projects that have capital costs. Access to capital is a significant barrier for companies conducting R&D in industrial and energy sectors.

**Q18 Q12** Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

It would be appropriate to follow the EU guidelines in this regard - where there would be scope for pilot or demonstration plants to produce project that is sold, and to continue operations once R&D is complete.

**Q19 Q13** What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities? **Respondent skipped this question**

**Q20 Q14** Are there reasons why continuity rules should not apply to tax credits? Please describe.

Continuity is important. If new investors come on board to help grow the company, the tax credits carried forward will help to make the investment more attractive which is in the best interests of all investors.

**Q21 Q15** Is the minimum threshold set at the right level?

**No,**

If 'no', please provide further details.:

The minimum level should be lower to:

1. encourage SME's to start R&D projects in any tax year
2. recognise SMEs may have less than 1FTE directly engaged in R&D
3. should also consider the treatment of founder time allocated to R&D activities and how this is accounted for.

**Q22 Q16** How important is a cap or a mechanism to go beyond the cap? Please provide further details.

The cap should be similar to other schemes in the region if the aim is to attract large overseas businesses to conduct R&D in NZ. However, the tax incentive will only be one consideration, so other mechanisms may be required to attract multinationals to conduct R&D.

## R & D Tax Incentive

**Q23** Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Respondent skipped this question

**Q24** Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Respondent skipped this question

**Q25** Q19 Are there any other risks that need to be managed? Please describe.

Respondent skipped this question

**Q26** Q20 Are there risks with extending penalties to external advisors in this way?

Care needs to be taken that penalties are a deterrent to helping clients understand their ability to receive the benefit.

**Q27** Q21 What is the right level of information required to support a claim?

Respondent skipped this question

**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Ideally R&D business costs and claims could be submitted via third party accounting software such as Xero or cashbook to cut down on administrative costs for the business.

**Q29** Q23 What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Yes,  
Contact details:

s 9(2)(a)

**Q31** Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

Overall, the incentive needs to be simple - it would help to align with the tax loss credit scheme and have direct electronic reporting for administrations.

The position of pre-revenue companies needs to be considered, as does the ability to claim capital costs of overseas equipment that is integral to R&D projects, and the ability to attract leading research from overseas to NZ.



# #51

**COMPLETE**

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**Last Modified:** Friday, June 01, 2018 12:03:57 PM  
**Time Spent:** 00:22:30  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:**

Name s 9(2)(a)  
 Email address

**Q2 (ii) For organisations:**

Name of organisation **CarbonScape Ltd**  
 Contact person name s 9(2)(a)  
 Position

**Q3 (iii) How long has your business been operating in New Zealand?** 10 years or more

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** 6 - 9

**Q5 (v) What industry sector does your business operate in?** C Manufacturing

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Project Grant 2015, 2016, 2017

**Q7 (vii) Has your organisation ever received any other R&D government support?** Yes,  
 If yes, please specify names of grant(s)/support.:  
 MBIE assistance and other smaller Callaghan grants

Page 3: Questions asked in the discussion document

## R & D Tax Incentive

**Q8** Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

Respondent skipped this question

**Q9** Q2 How well does this definition apply to business R&D carried out in New Zealand?

I think it applies well.

**Q10** Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

No

**Q11** Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

No

**Q12** Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

Respondent skipped this question

**Q13** Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

Respondent skipped this question

**Q14** Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

Respondent skipped this question

**Q15** Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Respondent skipped this question

**Q16** Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

Respondent skipped this question

**Q17** Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Respondent skipped this question

**Q18** Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

Respondent skipped this question

## R & D Tax Incentive

**Q19** Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities? **Respondent skipped this question**

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**Q20** Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe. **Respondent skipped this question**

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**Q21** Q15 Is the minimum threshold set at the right level? **Yes**

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**Q22** Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.

Happy with the cap

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**Q23** Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe. **Respondent skipped this question**

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**Q24** Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe. **Respondent skipped this question**

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**Q25** Q19 Are there any other risks that need to be managed? Please describe. **Respondent skipped this question**

---

**Q26** Q20 Are there risks with extending penalties to external advisors in this way? **Respondent skipped this question**

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**Q27** Q21 What is the right level of information required to support a claim? **Respondent skipped this question**

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**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software? **Respondent skipped this question**

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**Q29** Q23 What integrity measures do you think Inland Revenue should use? **Respondent skipped this question**

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**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process? **Yes**

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## R & D Tax Incentive

**Q31 Q25** Please provide any other feedback you may have on the proposed R&D tax incentive here.

For our business CarbonScape we been a NZ R&D business for 10 years and are still pre-revenue trying to prove a difficult but very meaningful (NZ and globally) technology developing NZ's first Graphite production and export company. We will not receive any cash incentive from the proposed R&D tax incentive until we commercialise our technology which will likely be 3-5 years away at least. **s 9(2)(b)(ii)** currently and this will adversely affect our business and as such we are strongly opposed to the proposed R&D tax incentive. We are taking significant risk to prove a technology but here is another clear reason to look outside of NZ to conduct our business if labour costs are lower and incentives exist elsewhere. We also only have a Callaghan Growth Grant option left as we have completed a Callaghan Project Grant (\$972k) in 2017. We are very disappointed with the proposed R&D tax incentive and phasing out of the Callaghan Growth Grant. Regards, **s 9(2)(a)** CarbonScape Ltd

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# #49

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 10:39:29 AM  
**Last Modified:** Friday, June 01, 2018 11:38:50 AM  
**Time Spent:** 00:59:21  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:** Respondent skipped this question

**Q2 (ii) For organisations:**

Name of organisation: **Izon Science Ltd**  
 Contact person name: s 9(2)(a)  
 Position: [Redacted]

**Q3 (iii) How long has your business been operating in New Zealand?** **10 years or more**

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** **10 - 19**

**Q5 (v) What industry sector does your business operate in?** **C Manufacturing**

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Project Grant: **None**  
 R&D Growth Grant: **2014, 2015, 2016, 2017**

**Q7 (vii) Has your organisation ever received any other R&D government support?** **Yes,**  
 If yes, please specify names of grant(s)/support.:  
 NZTE IGF, Callaghan Innovation Career Grants, FRST TBG

Page 3: Questions asked in the discussion document

**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

Unclear.

**Q9 Q2** How well does this definition apply to business R&D carried out in New Zealand?

Fine, but note that R&D is actually two things not one. Research, and Development are different. Most private organisations do more development than pure research. Both are required but pure research is more often done by the public sector and in particular universities.

**Q10 Q3** Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

No, but see comment above about product development being more common than pure research for private companies.

**Q11 Q4** Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

Many companies are commercially successful with "unscientific" products, eg cosmetics and dietary supplements. We at Izon do not wish to operate that way but it might limit the commercial success of many companies for whom the real scientific evidence is dubious.

**Q12 Q5** What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

For businesses, the aim of the R&D work is presumably to have a commercial outcome beyond getting a tax credit. It ought to be the business's decision primarily as to whether the R&D investment is worth it for that business.

**Q13 Q7** Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

No

**Q14 Q8** Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

n.a.

**Q15 Q9** What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Unlikely to be any

**Q16 Q10** What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

R&D cost involves more than the labour costs. The purpose of the R&D incentive should be the commercial benefit that arises from doing the R&D not just increasing employment.

**Q17 Q11** What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Simplicity and cost of compliance favours the use of a simple percentage.

**Q18 Q12** Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

The primary purpose of the R&D is to get a commercial return. The aim to develop a more sophisticated economy and higher productivity. It is also not clear that R&D for which a grant is payable should not also be eligible for the tax credit. That can be managed by the adjusting the value of any grant.

**Q19 Q13** What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities? **Respondent skipped this question**

**Q20 Q14** Are there reasons why continuity rules should not apply to tax credits? Please describe.

Yes, small companies can easily have changes in shareholding for good reasons. The replacement of growth grants with this tax credit proposal is already a disaster for companies who do extensive R&D in a tax loss situation. No point in making it even worse.

**Q21 Q15** Is the minimum threshold set at the right level?

**No,**  
If 'no', please provide further details.:  
It wouldn't affect our company but it seems too high for small companies.

**Q22 Q16** How important is a cap or a mechanism to go beyond the cap? Please provide further details.

The level proposed is likely higher than any company in NZ currently spends. Having a cap seems sensible in theory but will likely have no impact in practice.

**Q23 Q17** What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

**Respondent skipped this question**

**Q24 Q18** What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

**Respondent skipped this question**

**Q25 Q19** Are there any other risks that need to be managed? Please describe.

**Respondent skipped this question**

**Q26 Q20** Are there risks with extending penalties to external advisors in this way?

**Respondent skipped this question**

**Q27 Q21** What is the right level of information required to support a claim?

**Respondent skipped this question**

**Q28 Q22** What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

**Respondent skipped this question**

R & D Tax Incentive

**Q29** Q23 What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Yes,

Contact details:

s 9(2)(a)

**Q31** Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

Izon Science Ltd is a very intensive R&D focused business with commercial sales of its very sophisticated products in 45 countries. The proposal as set out would be SEVERELY NEGATIVE for our business. It is so bad that it is hard to understand the logic behind it. s 9(2)(b)(ii) If we lose the Growth Grant and the current tax refund we get on our R&D expenditure we will be very much worse off not better off. Izon Science is the epitome of the type of business that any R&D incentivisation project should be assisting. It would have been useful to be able to adequately address what we think of the whole proposal than be asked a series of questions about the details. If possible we would like to make some submissions in person to assist the government in making a rational decision.

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**From:** Hans van der Voorn  
**To:** [RD Incentive](#)  
**Subject:** R&D Incentive Submission from Izon Science  
**Date:** Friday, 1 June 2018 1:42:49 p.m.

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I have made online submissions in respect of the proposed R&D tax incentive and the phasing out of the Growth Grants.

Unfortunately the submissions only address a range of details, whereas our real problem is that the whole proposal is so negative for companies like Izon Science.

I believe that it would be useful to make a personal submission, at least so you can understand the direct impacts on our business, and what a better solution might look like.

s 9(2)(b)(ii)

The R&D work that we do is targeted at improving existing products or developing new products in bio-nanotechnology, with most of our customers and partners working globally in biomedical research.

Among our many projects, we have been working with the Mayo Clinic in the US to develop a new method of cancer diagnostics using exosomes as biomarkers. The new method would require some of our products in the work flow so it has scientific, commercial and societal benefits. We are also now in discussions with the NIH along similar lines. Two new products resulting from that work have already been released. You would expect that this is exactly the type of enterprise that New Zealand needs more of, not less of. s 9(2)(b)(ii)

. That is a huge disincentive, not an incentive.

We are in the process of adding 2 more people to our R&D team in Christchurch and need to recruit another electronics/software specialist. We also do offshore R&D, and have scientists in the US, France and Australia.

The New Zealand R&D programme will inevitably be cut back if the proposal as currently drafted is implemented.

It is not that we are opposed to an R&D tax incentive in principle. It is that by itself the tax incentive doesn't help companies that are growing but still pre-profit, whereas the Growth Grants do.

While not directly relevant to this argument, we should mention that the previous R&D tax credit was originally made public from Izon Science's premises in Dunedin by the then Science Minister, Hon. Pete Hodgson.

Please feel free to contact me directly.

Best regards

Hans van der Voorn



s 9(2)(a)

[Redacted]  
[Redacted] • w: [www.izon.com](http://www.izon.com)

**Izon Logo**  




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#34

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 12:43:13 PM  
**Last Modified:** Friday, June 01, 2018 1:11:43 PM  
**Time Spent:** 00:28:30  
**IP Address:** s 9(2)(a)

Page 2

**Q1 (i)** For individuals

Respondent skipped this question

**Q2 (ii)** For organisations

Name of organisation

Izon Science Ltd

Contact person name

s 9(2)(a)

Position

**Q3 (iii)** How long has your business been operating in New Zealand?

10 years or more

**Q4 (iv)** How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.

10 – 19

**Q5 (v)** What industry sector does your business operate in?

Manufacturing

**Q6 (vi)** Has your organisation ever received a R&D project or R&D growth grant?

R&amp;D Project Grant

None

R&amp;D Growth Grant

2014

**Q7 (vii)** Has your organisation ever received any other R&D government support?

Yes,

If yes, please specify names of grant(s)/support.:

NZTE IGF, Callaghan Career Grants, FRST  
TBG**Q8** How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.)

Very unlikely

**Q9** How much R&D does your organisation expect to carry out in the coming year?

s 9(2)(b)(ii)

Page 3: Responses to questions in the consultation document

**Q10 Q1** What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

Firstly the proposal to switch from the current system to the proposed system will have severely negative effects on Izon Science's business. The longer that can be delayed the better. It would be preferable if the whole proposal was abandoned or significantly modified. Izon Science is one of the most research intensive private companies in NZ, with products sales in 45 countries. It currently benefits from a Growth Grant, which essentially refunds 20% of our NZ based R&D expenditure. In addition, because we are in a tax loss situation, we can get a tax refund on the R&D portion of our tax loss. Both items are of great benefit to our cash flow and have a direct impact on our ability to continue with our R&D programme in NZ. The R&D tax incentive proposal considerably reduces the funding we would get and also delays it. If the R&D tax credit just adds to our accumulated tax losses then it is completely worthless to us. Our alternatives would be to slow down or cease R&D, or perform the R&D in a more user friendly economy. We compete with US companies who have been able to fund their operations with US Govt grants. Neither of these outcomes are desirable for the NZ economy. The proposed transition arrangements defer the problem until March 2020, which isn't all that far away. We are also unclear what will happen to the tax refund on the R&D portion of our tax loss that is presently available.

**Q11 Q2** What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

Because the proposal is so negative for research intensive companies like Izon, the transition should be as long as possible. Preferably long enough for some common sense to prevail and for the proposal to be reconsidered. s 9(2)(ba)(ii)

**Q12 Q3** What impact will the proposed transition arrangements have on your R&D programme over the next few years?

The transitional arrangements allow the current programme to continue in the interim, although we are unclear on the status of the current tax refund system. The proposal to move from the current Growth Grant system to the much weaker R&D tax credit will result in a significant reduction in R&D in NZ, with the R&D likely to be moved offshore.

**Q13 Q4** Please provide any other comments about the proposed transition arrangements.

To reiterate, the whole proposal is terrible for science based companies like Izon Science. The vain hope that large building companies, power companies and the like might suddenly start to do R&D because of the R&D tax credit does not justify the negative effect on the companies who are serious about R&D and who do it for a commercial purpose.

**Q14 Q5** For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

The temporary grant at least enables us to continue with our R&D in the short term. Hopefully that will be long enough for a better proposal to be formulated. Logically the R&D tax credit system would be introduced but the Growth Grant scheme or something similar needs to be retained. As a company in a tax loss situation the tax credit would be useless unless it is paid out in cash and we can already claim a tax refund anyway. We are moving into a profitable position, and would be profitable if we did not R&D. However if we did no R&D we would ultimately decline instead of growing.

# #48

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 10:17:22 AM  
**Last Modified:** Friday, June 01, 2018 11:26:35 AM  
**Time Spent:** 01:09:13  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:**

Name s 9(2)(a)  
 Email address

**Q2 (ii) For organisations:**

Name of organisation **Biotelliga Limited**  
 Contact person name s 9(2)(a)  
 Position

**Q3 (iii) How long has your business been operating in New Zealand?** **6 to less than 10 years**

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** **10 - 19**

**Q5 (v) What industry sector does your business operate in?** **M Professional, scientific, & technical**

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Project Grant **2012, 2013, 2014**  
 R&D Growth Grant **2017**

**Q7 (vii) Has your organisation ever received any other R&D government support?** **Yes,**  
 If yes, please specify names of grant(s)/support.:  
 Student fellowships

Page 3: Questions asked in the discussion document

## R & D Tax Incentive

**Q8** Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

Respondent skipped this question

**Q9** Q2 How well does this definition apply to business R&D carried out in New Zealand?

We are comfortable with the proposed definition of R&D

**Q10** Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

Respondent skipped this question

**Q11** Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

Respondent skipped this question

**Q12** Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

Respondent skipped this question

**Q13** Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

Respondent skipped this question

**Q14** Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

Respondent skipped this question

**Q15** Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Respondent skipped this question

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**Q16 Q10** What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

The growth grant is based on pre-approval of the R&D programme. This provides certainty that the claims when filed quarterly will be accepted. The R&D tax incentive system is not based on a pre-approval process. In the past where such a system has been in operation, companies have not had visibility on eligible R&D expenditure and are vulnerable to having their claim or part of their claim rejected on filing. For small companies like Biotelliga which are heavily R&D focused, this would create issues with planning, decisions on investment and cash flow management. We would therefore favour continuation of a pre-approval process. The first approach on defining eligible R&D expenditure is based solely on direct R&D labour costs. This could pose a problem for Biotelliga as the operations team **s 9(2)(b)(ii)** are indirect and a key component of R&D. We favour the broader range of direct and indirect costs as we make use of external contractors for work where we do not have in house resources available.

We have 14 staff all based in NZ with laboratories located at the University of Auckland, the Innovation Hub in Parnell and a scale facility at Pukekohe where we undertake research, sample manufacturing and analyses. In addition, we utilise several NZ companies to support our technology development including **s 9(2)(b)(ii)**. As this R&D is undertaken in NZ, it is eligible expenditure under the existing growth grant and the proposed R&D tax incentive scheme.

As the growth grant does not allow for any overseas R&D to be claimed, we support the introduction of eligible overseas R&D expenditure. We believe the 10% maximum should be increased where it is not feasible for research to be conducted in New Zealand.

For example, one of our products with an efficacy profile confirmed by the ACVM in NZ requires further toxicology studies to be completed for registration with the EPA. Such studies must be performed in GLP certified laboratories and there is an absence of such facilities and associated specialist expertise in NZ. We therefore have no option but to engage CROs offshore. Hence companies like us in this phase of development are heavily penalised if overseas R&D is not eligible. For one particular project, **s 9(2)(b)(ii)** is required for studies which are not able to be conducted in NZ. Under the proposed R&D tax incentive scheme, with the requirement for 50% of the R&D in any project to be conducted in NZ, none of the overseas R&D spend would be eligible for this particular project.

We recommend that a higher level of overseas R&D is able to be claimed provided evidence can be provided these contracts could not be undertaken in NZ. In addition, the proportion of overseas expenditure which could be claimed should be considered over the total project life and not just in a single year as later stage R&D activities are penalised.

**Q17 Q11** What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Respondent skipped this question

**Q18 Q12** Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

We note that the terminology 'could reasonably be expected' allows too much discretion when tax law should provide certainty. If this rule was to be adopted, it should be that qualifying R&D is reduced by any commercial consideration specifically linked to the R&D undertaken.

For our industry we would define commercial consideration as post registration R&D i.e collaborative work with others partners during the pre-registration period would be eligible.

**Q19 Q13** What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

Respondent skipped this question

**Q20 Q14** Are there reasons why continuity rules should not apply to tax credits? Please describe.

As the timeline to the initial development of a technology can and does take a number of years which is capital intensive, the loss of continuity would unfairly disadvantage the original investors.

**Q21 Q15** Is the minimum threshold set at the right level?

If 'no', please provide further details.:  
We think this is acceptable

**Q22 Q16** How important is a cap or a mechanism to go beyond the cap? Please provide further details.

Biotelliga is an R&D intensive business doing leading edge research s 9(2)(b)(ii), the R&D tax loss cash out scheme has been a fundamental component in funding R&D until consistent profitability is achieved. The loss of the scheme would have a detrimental impact on sustainability.

The discussion paper notes that the government recognises the importance of supporting R&D businesses that are in tax loss positions and that it is committed to providing a better policy option to support such businesses. The discussion paper notes that as these policy issues are complex these will not be resolved prior to introduction of the R&D tax incentive scheme in April 2019 and it is not proposed to have an appropriate policy in place until 2020. This creates a level of uncertainty for businesses like Biotelliga and we would recommend the government confirm that the R&D tax loss cash out scheme remains in place.

We have no objection to the 15m cap per year as it is below our long term expenditure forecasts. However, we do not favour the 12.5% rate as is substantially less than the current 20% we get from the Callaghan Growth Grant, so we will be worse off under the new scheme.

**Q23 Q17** What features of a Ministerial discretion of pre-registration would make them most effective? Please describe.

Respondent skipped this question

**Q24 Q18** What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Respondent skipped this question

**Q25 Q19** Are there any other risks that need to be managed? Please describe.

Respondent skipped this question

**Q26 Q20** Are there risks with extending penalties to external advisors in this way?

Respondent skipped this question

**Q27 Q21** What is the right level of information required to support a claim?

We have no concerns or comments regarding record keeping, however will favour the introduction of third party software to facilitate the claim process.

**Q28 Q22** What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Respondent skipped this question



**Q29 Q23** What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

**Q30 Q24** Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Yes,

Contact details:

§ 9(2)(a) We would appreciate the opportunity to discuss the change further prior to decision and implementation

**Q31 Q25** Please provide any other feedback you may have on the proposed R&D tax incentive here.

Biotelliga recognises that this initiative is designed to increase New Zealand's R&D spend in total, it is specifically targeted at larger profitable companies. Biotelliga is a small innovative company undertaking world leading research in food production through crop protection. While we are small, we have spent approximately § 9(2)(b)(ii) on R&D over the last 9 years. The removal of cash grants in favour of a tax credit scheme will have a major impact on the speed and impact of our research.

R&D companies rely on the cash received from the Growth Grant and tax loss cash-out scheme, and under the new scheme there will be no financial benefit until in a profit position. We would therefore prefer a scheme which provided rebates on a quarterly basis, and cash out of tax losses under the current scheme.

Biotelliga is a New Zealand Agri-tech company with an annual R&D spend of § 9(2)(b)(ii). We are focussed on identifying active biomolecules § 9(2)(b)(ii) which afford protection to crops from pests and diseases. The company functions as a technology incubator and product concepts are either identified in-house or licensed from external partners such as universities. These are then tested for proof-of concept and developed as biological crop protection technologies for the agricultural industry. Biotelliga technologies are aimed to be leading edge and to replace existing crop protection products due to their field performance, cost and ease of use. Biotelliga products will always have low toxicological impact and minimal effect on the environment, which is in-line with emerging global regulatory requirements. § 9(2)(b)(ii)

We have successfully registered products in NZ and have also attracted third party investment in several of our programmes. § 9(2)(b)(ii) to invest in our technology platforms to produce a viable commercial product.

We are current recipients of the Callaghan Innovation Growth Grant and this is an important support for our R&D programme. We appreciate the opportunity to provide feedback to the Government's proposed R&D tax incentive scheme. Our responses relate to questions which are relevant for our company and business sector.

The growth grant provides payments to companies on a quarterly basis, providing a predictable payment schedule. The R&D tax incentive scheme would remove this attribute. The expected tax rebate from the new incentive scheme (provided we are no longer in a tax loss position) may take 18 months from receipt of the last growth grant payment. We recommend a system which provides rebates on a quarterly basis.

§ 9(2)(b)(ii)

. We recommend that growth grants are retained for R&D intensive companies. If the growth grant is not retained, then the transition period should allow existing growth grant holders to apply for the two years extension on their current expiry date as per the current rules.

#31

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 11:26:46 AM  
**Last Modified:** Friday, June 01, 2018 11:31:50 AM  
**Time Spent:** 00:05:03  
**IP Address:** s 9(2)(a)

Page 2

**Q1 (i) For individuals**

Name s 9(2)(a)  
 Email address

**Q2 (ii) For organisations**

Name of organisation **Biotelliga Limited**  
 Contact person name s 9(2)(a)  
 Position

**Q3 (iii) How long has your business been operating in New Zealand?** **6 to less than 10 years**

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** **10 – 19**

**Q5 (v) What industry sector does your business operate in?** **Agriculture, forestry, & fishing**

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Project Grant **2014**  
 R&D Growth Grant **2017**

**Q7 (vii) Has your organisation ever received any other R&D government support?** **Yes,**  
 If yes, please specify names of grant(s)/support.:  
 Student fellowships

**Q8** How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.) **Very unlikely**

**Q9** How much R&D does your organisation expect to carry out in the coming year? s 9(2)(b)(ii)

Page 3: Responses to questions in the consultation document

**Q10** Q1 What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

The growth grant provides payments to companies on a quarterly basis, providing a predictable payment schedule. The R&D tax incentive scheme would remove this attribute. The expected tax rebate from the new incentive scheme (provided we are no longer in a tax loss position) may take 18 months from receipt of the last growth grant payment. This would have a significant impact on our planned programmes and cashflow

**Q11** Q2 What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

s 9(2)(ba)(i)

Our preference is that the growth grants are retained for R&D intensive companies. If the growth grant is not retained, then the transition period should allow existing growth grant holders to apply for the two years extension on their current expiry date as per the current rules.

**Q12** Q3 What impact will the proposed transition arrangements have on your R&D programme over the next few years?

Biotelliga is an R&D intensive business undertaking leading edge research s 9(2)(b)(ii)

the R&D tax loss cash out scheme has been a fundamental component in funding R&D until consistent profitability is achieved. The short transition period combined with uncertainty around tax policy for businesses in a tax loss position could have a detrimental impact on sustainability.

**Q13** Q4 Please provide any other comments about the proposed transition arrangements. **Respondent skipped this question**

**Q14** Q5 For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

Refer question 3

# #46

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 10:42:16 AM  
**Last Modified:** Friday, June 01, 2018 11:15:39 AM  
**Time Spent:** 00:33:22  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:** Respondent skipped this question

**Q2 (ii) For organisations:**

Name of organisation: s 9(2)(g)(i)  
 Contact person name: s 9(2)(a)  
 Position:

**Q3 (iii) How long has your business been operating in New Zealand?** 10 years or more

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** 100 or more

**Q5 (v) What industry sector does your business operate in?** C Manufacturing

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Growth Grant: 2015

**Q7 (vii) Has your organisation ever received any other R&D government support?** Yes,  
 If yes, please specify names of grant(s)/support.:  
 Specific technology development grant

Page 3: Questions asked in the discussion document

**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

May impact funding from Crown Research institutes such as the Robinson Institute

**Q9** Q2 How well does this definition apply to business R&D carried out in New Zealand?

Probably Ok, but difficult to know until the full details are provided. Will there be technical exclusions in the detail

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**Q10** Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

Probably Ok, but difficult to know until the full details are provided

---

**Q11** Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

Probably Ok, but difficult to know until the full details are provided

---

**Q12** Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

Use and definition of the material test is ambiguous and will be difficult to assess. Product advancement that results in commercial return outcomes should be included and may not be a material advancement in science.

The use of a material test if applied literally will significantly limit applicable R&D

---

**Q13** Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

The exclusion of cosmetic changes may limit R&D activity. Subtle changes in products that result from R&D activities and that result in commercial outcomes are equally important

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**Q14** Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

N/A

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**Q15** Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

It shouldn't matter if one of the purposes is genuine R&D

---

**Q16** Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

Overheads are part of the R&D cost

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**Q17** Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

This simplistic approach is favoured

Anything that involves less audit assessment is favoured

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## R & D Tax Incentive

**Q18 Q12** Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

I assume this includes the likes of non-recurring expenditure?

If so, ok to exclude as the company has not incurred additional cost in the R&D function

**Q19 Q13** What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

N/A

**Q20 Q14** Are there reasons why continuity rules should not apply to tax credits? Please describe.

Tax credits should be linked to R&D activity that employs people and generates taxable profits. in that regard, the continuity rules should not apply to tax credits as the value to the country is enduring

**Q21 Q15** Is the minimum threshold set at the right level? **Yes**

**Q22 Q16** How important is a cap or a mechanism to go beyond the cap? Please provide further details.

The proposed cap is ok for our company

**Q23 Q17** What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

N/A

**Q24 Q18** What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

No issue on transparency, as we don't have competitors in NZ

**Q25 Q19** Are there any other risks that need to be managed? Please describe. **Respondent skipped this question**

**Q26 Q20** Are there risks with extending penalties to external advisors in this way?

It will undoubtedly result in external advisors being very conservative in the sign off of tax returns.

Better to set the rules clearly so they are simple and transparent and place the ownership on the taxpayer to get their claim correct

**Q27 Q21** What is the right level of information required to support a claim?

Need to ensure that tax advisors and auditors don't become the key beneficiary of the scheme.

With the Callaghan Growth grant the benefit was eroded due to the need to get audit review certificates - very costly and time consuming.

The scheme needs to be designed with simplicity

R & D Tax Incentive

**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software? **Respondent skipped this question**

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**Q29** Q23 What integrity measures do you think Inland Revenue should use?

Onus on the taxpayer to get it right in the same way as tax returns

---

**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process? **Yes**

---

**Q31** Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

I'm not clear on the position of companies in a tax loss situation as we are.

If the only benefit is to be able to carry forward the tax credits, then we will have a cash flow shortfall vs the current Growth Grant scheme. This is our key concern

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Released Consistent with the Official Information Act 1982

#44

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 8:49:47 AM  
**Last Modified:** Friday, June 01, 2018 10:30:51 AM  
**Time Spent:** 01:41:03  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:**

Respondent skipped this question

**Q2 (ii) For organisations:**

Name of organisation  
 Contact person name  
 Position

s 9(2)(b)(ii)

s 9(2)(a)

**Q3 (iii) How long has your business been operating in New Zealand?**

10 years or more

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.**

100 or more

**Q5 (v) What industry sector does your business operate in?**

A Agriculture, forestry, & fishing

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Growth Grant

2015, 2016, 2017

**Q7 (vii) Has your organisation ever received any other R&D government support?**

Yes,  
 If yes, please specify names of grant(s)/support.:  
 Minor participant in PGP funding

Page 3: Questions asked in the discussion document

**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

These organisations are already excluded from MBIE science funding and Callaghan funding so there will be little change from the current impact on R&D in New Zealand



**Q9 Q2** How well does this definition apply to business R&D carried out in New Zealand?

It is suitable for the [redacted] research projects

**Q10 Q3** Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

No

**Q11 Q4** Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

This depends on the final definition of "scientific method" and if that definition can be applied to industries in the agricultural sector where the research includes that done on biological assets where the methods can be different from say a lab based research project. IAS 38 has been a suitable definition for [redacted] in the past and [redacted] would recommend that it is retained.

**Q12 Q5** What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

That would have a large impact on R&D. By its nature R&D is the usage of past knowledge to build further knowledge and is therefore incremental. That is the nature of our R&D which is ongoing and continually building on past and new knowledge. It leaves open how and who defines that materiality. If the IRD manages this process then that materiality will likely to be financially based rather than science based. Research that [redacted] undertakes is often in areas where the problem is known but where the advancement of the science and technologies are the important aspect. In agriculture one could argue that we have been solving the problem for centuries but the advancement is continuous and always will be.

**Q13 Q7** Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

No. Support services should be included as they are an essential part of the research activities.

**Q14 Q8** Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

There have been social science projects involved with the wellbeing of staff in the agricultural sector. This has important outcomes for those servicing the agricultural sector and dealing on a daily basis with farmers. While [redacted] does not undertake any research in this area it relies on research undertaken by other organisations who do.

**Q15 Q9** What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

This is always an issue in a tax incentive approach to this work as it is a case of "one size does not fit all". In a commercial organisation the line between R&D and non-R&D can be grey. [redacted] with Callaghan, have developed calculation processes to separate these but these are specific to the [redacted] business. A legislated process is unlikely to work as well, and if it does for [redacted] then it will not for others.

## R & D Tax Incentive

**Q16 Q10** What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

That will be a strong disincentive to some of the research projects such as what [redacted] complete. There is significant cost in purchasing disposable biological collection devices and then analytical services that a small company like [redacted] cannot build internally. In a large current research program covered by a Callaghan Growth Grant 90% of the cost is of this nature, and the project would have been at risk of not being approved if only internal R&D labour costs could be claimed.

**Q17 Q11** What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

[redacted] supports the first approach. The second approach while simple disadvantages companies that have small R&D teams but large R&D budgets.

**Q18 Q12** Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

Yes, [redacted] is involved in a significant project at present where there is minor commercial consideration received. This is netted off the R&D cost but if it meant all the R&D cost was excluded for this then that would either have an impact on the approval of the R&D expenditure or one could choose to forgo the revenue. The former would be to the detriment of R&D in NZ. That latter would increase the tax incentive paid by the Crown. Both seem unreasonable outcomes. The words "could reasonably be expected" are open to interpretation and create uncertainty when used in a tax environment.

**Q19 Q13** What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

N/A

**Q20 Q14** Are there reasons why continuity rules should not apply to tax credits? Please describe.

The issue here is that because the incentive is treated under tax rules it is not paid to original developer if they are in a tax loss situation. Continuity is not an issue if the tax incentive is paid out as a tax credit while the research takes place. If the government is truly keen to increase R&D investment in NZ then these credits need to be paid out as the research occurs.

**Q21 Q15** Is the minimum threshold set at the right level? **Yes**

**Q22 Q16** How important is a cap or a mechanism to go beyond the cap? Please provide further details.

Not important for [redacted]

**Q23 Q17** What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Unable to comment

## R & D Tax Incentive

**Q24 Q18** What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

§ 9(2)(b)(ii) considers that this is the appropriate approach in the tax incentive environment. However it runs the risk of finding a problem after "the horse has bolted".

**Q25 Q19** Are there any other risks that need to be managed? Please describe.

Unable to comment.

**Q26 Q20** Are there risks with extending penalties to external advisors in this way?

If external advisors get a fee based on the level of the claim then § 9(2)(b)(ii) does not have a problem with them being imposed penalties in this way.

**Q27 Q21** What is the right level of information required to support a claim?

§ 9(2)(b)(ii) suggests using a similar level of information as is required by the Callaghan Growth Grant process.

**Q28 Q22** What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

§ 9(2)(b)(ii) would have to use its tax advisors to do this.

**Q29 Q23** What integrity measures do you think Inland Revenue should use?

While it is stated that Callaghan will be used to assist IRD in this process, § 9(2)(b)(ii) is concerned that Callaghan will not have the resources to do this in a meaningful way for individual claimants.

**Q30 Q24** Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Yes,

Contact details:

§ 9(2)(a)

**Q31 Q25** Please provide any other feedback you may have on the proposed R&D tax incentive here.

This submission process fails to ask other questions that are pertinent. The Callaghan Growth Grant process has led to certainty about eligible R&D expenditure as the types of expenditure are known and approved prior to the expenditure occurring. Whereas it is considered that a legislated tax incentive process will actually lead to greater uncertainty and that is problematic when the penalties for getting it wrong are taxation penalties. Callaghan provided a constant point of contact for discussing § 9(2)(b)(ii) research projects including advice on where we could get assistance etc. This has been valuable for a small company in our collaborative use of other research organisations to achieve objectives that have been of benefit to the dairy industry as a whole. This important aspect is likely to be lost with the move to tax incentives.

# #43

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Thursday, May 31, 2018 12:29:49 PM  
**Last Modified:** Friday, June 01, 2018 10:27:16 AM  
**Time Spent:** 21:57:27  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:** Respondent skipped this question

**Q2 (ii) For organisations:**

Name of organisation: Ravensdown Limited  
 Contact person name: s 9(2)(a)  
 Position: [Redacted]

**Q3 (iii) How long has your business been operating in New Zealand?** 10 years or more

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** 100 or more

**Q5 (v) What industry sector does your business operate in?** A Agriculture, forestry, & fishing

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Growth Grant: 2016, 2017

**Q7 (vii) Has your organisation ever received any other R&D government support?** Yes,  
 If yes, please specify names of grant(s)/support.:  
 PGP

Page 3: Questions asked in the discussion document

Released Consistent with the Official Information Act 1982

**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

Ravensdown frequently engages in research contracts with CRI's and universities, usually this work is a specific contract for which Ravensdown would expect to receive the tax rebate (and not double dipped with the institution). Occasionally the institution may broaden the work on its own violation and on its own account. Ideally a tax incentive could apply to this work as well for the institution.

The regime established for CRI's and universities may also be appropriate for private research contracting companies with the principal being that the party giving the contract for research receives the tax credits.

A recent example for Ravensdown, is a research project with Lincoln University which has developed a new tool for improved management of dairy cow effluent. s 9(2)(b)(ii)

**Q9 Q2** How well does this definition apply to business R&D carried out in New Zealand?

The definition is too narrow. We undertake a significant level of Continuous Improvement in our company which would not fit the scientific method, but would still benefit development within NZ. We suggest the use of the word scientific may limit development in newer areas. Patenting is a natural extension of research and secures benefits for the NZ company. Why should this be excluded? Also, statutory requirements relating to the research work can be a significant cost (e.g. animal ethics approvals).

**Q10 Q3** Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

Yes the definition does excludes some R&D. Robotic developments we have made at our subsidiary, C-Dax and technology/software such as Hawkeye would be excluded. In our laboratory we developed a robot to automate some manual processes, this would not be included in the current definition, but supplies significant opportunity for not only our business but others.

**Q11 Q4** Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

The manufacturing sector is likely to develop new and improved processes and products which may not necessarily follow the scientific process. It may be difficult for manufacturing to track and record the processes as a scientific programme. They don't fit the scientific hypothesis yet provide benefits. Also we need to ensure work that adapts international technologies to NZ conditions meets the criteria.

**Q12 Q5** What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

We feel materiality tests are not appropriate. The measurements should be on the process of improvement and development. The introduction of materiality is likely to encourage medium and large businesses only. Continuous Improvement may also be excluded under the materiality test.

**Q13 Q7** Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

Respondent skipped this question

**Q14 Q8** Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

Respondent skipped this question

## R & D Tax Incentive

**Q15 Q9** What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

A large volume of work is conducted through business improvement. We have many examples in our "Business as Usual" whose impact will not be included in the scope. It would not incentivise the Continuous Improvement sector of our business.

**Q16 Q10** What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

We disagree with limiting the eligible expenditure to R&D labour costs. With new emerging technology we are seeing a larger portion of non labour costs being included in our R&D projects. By limiting the incentive this may discourage people from using developing tools.

In our business the use of algorithms is becoming important, however these are developed with lower direct labour input.

**Q17 Q11** What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

We believe both options should be included. Different businesses will suit different options.

**Q18 Q12** Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

Respondent skipped this question

**Q19 Q13** What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

Respondent skipped this question

**Q20 Q14** Are there reasons why continuity rules should not apply to tax credits? Please describe.

Respondent skipped this question

**Q21 Q15** Is the minimum threshold set at the right level?

If 'no', please provide further details.:

For Ravensdown to assess if a minimal threshold is appropriate, we would need to understand if it is set at a tax group level or individual entity. If it is at an entity level our view is the threshold is too high. An R&D spend of \$100,000 per annum will limit this incentive to mid and larger sized companies.

**Q22 Q16** How important is a cap or a mechanism to go beyond the cap? Please provide further details.

Respondent skipped this question

**Q23 Q17** What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

We think pre-registration is appropriate. As organisations plan their R&D investment sometimes years in advance, it is important that there is a clear and stable business making process. Pre-registration would give a level of certainty to the business.

**Q24 Q18** What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

We disagree with providing customer specific information with the 2 year lag. This level of information could disadvantage longer term commercially sensitive projects. An example is our recently developed project with Lincoln University, which took 4 years. It is possible that some of our most important future R&D will take longer than a 2 year time frame to complete. And it often is later in the research programme when one has the information to secure all the relevant IP.

**Q25 Q19** Are there any other risks that need to be managed? Please describe.

Respondent skipped this question

**Q26 Q20** Are there risks with extending penalties to external advisors in this way?

Respondent skipped this question

**Q27 Q21** What is the right level of information required to support a claim?

Respondent skipped this question

**Q28 Q22** What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Respondent skipped this question

**Q29 Q23** What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

**Q30 Q24** Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Respondent skipped this question

**Q31 Q25** Please provide any other feedback you may have on the proposed R&D tax incentive here.

It is encouraging to see the focus on encouraging R&D in New Zealand. Whilst we continue to improve our business, we believe the tax incentive will assist in making some programmes viable.

Released Consistent with the Official Information Act 1982

# #41

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 9:37:43 AM  
**Last Modified:** Friday, June 01, 2018 9:43:31 AM  
**Time Spent:** 00:05:47  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:**

Name s 9(2)(a)  
 Email address

**Q2 (ii) For organisations:**

Respondent skipped this question

**Q3 (iii) How long has your business been operating in New Zealand?**

2 to less than 6 years

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.**

10 to 19

**Q5 (v) What industry sector does your business operate in?**

J Information media &

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Project Grant 2015, 2016, 2017  
 R&D Growth Grant None

**Q7 (vii) Has your organisation ever received any other R&D government support?**

No

Page 3: Questions asked in the discussion document

**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

Respondent skipped this question

**Q9 Q2** How well does this definition apply to business R&D carried out in New Zealand?

Respondent skipped this question



**Q10** Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

Yes. We are a venture backed startup creating jobs and paying people but not turning a profit.

**Q11** Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

Yes. Design and UX research are intensive processes that follow an iterative model rather than the scientific method. Industrial design of products like the iPhone would be excluded if the requirement were based on the scientific method

**Q12** Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

Respondent skipped this question

**Q13** Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

Respondent skipped this question

**Q14** Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

Respondent skipped this question

**Q15** Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Respondent skipped this question

**Q16** Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

Respondent skipped this question

**Q17** Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Respondent skipped this question

**Q18** Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

Respondent skipped this question

**Q19** Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

Respondent skipped this question

**Q20** Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe.

Respondent skipped this question

R & D Tax Incentive

**Q21** Q15 Is the minimum threshold set at the right level?

**No,**  
If 'no', please provide further details.:  
You are freezing out smaller businesses specifically.

**Q22** Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.

Respondent skipped this question

**Q23** Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Respondent skipped this question

**Q24** Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Respondent skipped this question

**Q25** Q19 Are there any other risks that need to be managed? Please describe.

Respondent skipped this question

**Q26** Q20 Are there risks with extending penalties to external advisors in this way?

Respondent skipped this question

**Q27** Q21 What is the right level of information required to support a claim?

Respondent skipped this question

**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Respondent skipped this question

**Q29** Q23 What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

**Yes,**  
Contact details:  
s 9(2)(a)

**Q31** Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

This policy seems focused specifically on businesses who do not need support.

# #40

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 9:08:55 AM  
**Last Modified:** Friday, June 01, 2018 9:15:02 AM  
**Time Spent:** 00:06:07  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:** Respondent skipped this question

**Q2 (ii) For organisations:**

Name of organisation: **The Tatua Co-operative Dairy Company Ltd**  
 Contact person name: s 9(2)(a)  
 Position: [Redacted]

**Q3 (iii) How long has your business been operating in New Zealand?** **10 years or more**

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** **100 or more**

**Q5 (v) What industry sector does your business operate in?** Respondent skipped this question

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?** Respondent skipped this question

**Q7 (vii) Has your organisation ever received any other R&D government support?** **Yes,**  
 If yes, please specify names of grant(s)/support.:  
 R&D Student Grant

Page 3: Questions asked in the discussion document

**Q8 Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?** Respondent skipped this question

**Q9** Q2 How well does this definition apply to business R&D carried out in New Zealand?

This definition is OK

**Q10** Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples? **Respondent skipped this question**

**Q11** Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

The Scientific method requirement would exclude rapid prototyping - aka the 'Agile' development method. This is a valid technique for development.

**Q12** Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

Advancement of science or technology is a significant test. A considerable amount of R&D is about applying scientific method and knowledge to a new area, or a new product, or a new problem. This test would beg the question 'What would be the evidence of advancement?' and for the vast amount of 'trade secret' R&D undertaken that would be difficult to demonstrate.

Answer for Q6: In general, we would assert that the comment that 'support activities' do not advance science or technology themselves is unhelpful. We support the definition in paragraph b), without the additional comment regarding advancement.

**Q13** Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe. **Respondent skipped this question**

**Q14** Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand? **Respondent skipped this question**

**Q15** Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe. **Respondent skipped this question**

**Q16** Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

Restricting to direct R&D labour cost would exclude significant risk expenditure, particularly on testing, associated with any R&D project.

**Q17** Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

The simplicity of applying overhead costs as a percentage of R&D costs is its advantage.

## R & D Tax Incentive

**Q18** Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

If the purpose of R&D is to create new or improved materials, products etc then it must be assumed that at some stage, R&D is proven successful when consideration is received for the new material, product etc. Therefore the exclusion of commercial consideration would tend to focus on non-commercially focused R&D - and this would be a poor outcome for NZ.

**Q19** Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities? **Respondent skipped this question**

**Q20** Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe. **Respondent skipped this question**

**Q21** Q15 Is the minimum threshold set at the right level? **Yes,**  
If 'no', please provide further details.:  
The threshold level of 100k per annum would allow for small R&D activities to receive the R&D tax credit, and therefore foster increased levels of R&D for small to medium enterprises

**Q22** Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details. **Respondent skipped this question**

**Q23** Q17 What features of a Ministerial discretion of pre-registration would make them most effective? Please describe. **Respondent skipped this question**

**Q24** Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe. **Respondent skipped this question**

**Q25** Q19 Are there any other risks that need to be managed? Please describe. **Respondent skipped this question**

**Q26** Q20 Are there risks with extending penalties to external advisors in this way? **Respondent skipped this question**

**Q27** Q21 What is the right level of information required to support a claim? **Respondent skipped this question**

**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software? **Respondent skipped this question**

R & D Tax Incentive

**Q29** Q23 What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

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**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Respondent skipped this question

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**Q31** Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

Respondent skipped this question

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#39

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 8:22:21 AM  
**Last Modified:** Friday, June 01, 2018 8:52:13 AM  
**Time Spent:** 00:29:51  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:** Respondent skipped this question

**Q2 (ii) For organisations:**

Name of organisation: **Aportio Technologies Limited**  
 Contact person name: s 9(2)(a)  
 Position: [Redacted]

**Q3 (iii) How long has your business been operating in New Zealand?** **Less than 2 years**

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** **1 - 5**

**Q5 (v) What industry sector does your business operate in?** **M Professional, scientific, & technical**

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Growth Grant: **None**

**Q7 (vii) Has your organisation ever received any other R&D government support?** **No**

Page 3: Questions asked in the discussion document

**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

Many innovative businesses work closely with institutions like these to help further R&D efforts because those institutions have centres of excellence and cultures that help NZInc become more innovative. Without clear incentives for those institutions to support NZ R&D there is a high risk that NZInc innovation will reduce.

**Q9 Q2** How well does this definition apply to business R&D carried out in New Zealand?

The lack of clear definition of software R&D makes it difficult to respond to this question.

**Q10 Q3** Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

Software R&D is significant in showcasing NZ on the global stage as a country of innovation. Many NZ companies have done and are doing ground breaking software R&D despite the relative size of these NZ companies compared to their global competitors. It would be a huge step backwards for NZ's number 8 wire reputation to exclude software R&D, particularly at a time when technology is moving into 4th/5th generation with machine learning, natural language processing, AI, 3D printing enabling further innovation in everything from healthcare to all aspects industry. Technology, and in particular software which enables, is no longer just supporting innovation, but driving it.

**Q11 Q4** Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

The scientific method seems to exclude software R&D which, as noted above, would be a significant backward step for NZ's global reputation and NZInc specifically.

**Q12 Q5** What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

The problem with a materiality test is that in early stages, it is difficult to accurately ascertain the impact and therefore only encourages those that are comfortable exaggerating potential.

**Q13 Q7** Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe. **Respondent skipped this question**

**Q14 Q8** Please provide any examples where social science research is/has been a core part of business R&D in New Zealand? **Respondent skipped this question**

**Q15 Q9** What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Businesses would need to clearly separate R&D and non-R&D activities. That would add operational and compliance costs to the business with no clear benefit to anyone.

**Q16 Q10** What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

While the R&D scheme does encourage NZ employment, the R&D scheme is not an employment incentive scheme. Contractors are a very important part of the NZ employment landscape, excluding in-direct employment and should as a minimum be included in the eligible labour cost definition.

**Q17 Q11** What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe. **Respondent skipped this question**



## R & D Tax Incentive

**Q18 Q12** Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

An important part of agile development (which applies equally to non-software development) relies on the concept of delivering value to customers early (i.e. the minimum viable product). It also makes a great deal of business sense to try to fund continued development of a product through a staged process of early releases with commercial benefit. It does not make sense to discourage good commercial decisions.

**Q19 Q13** What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities? **Respondent skipped this question**

**Q20 Q14** Are there reasons why continuity rules should not apply to tax credits? Please describe.

The nature of many businesses with significant R&D is that they need increasing investment from various sources as they mature. The continuity rules would disadvantage such businesses, inevitably curbing R&D in NZ.

**Q21 Q15** Is the minimum threshold set at the right level? **Respondent skipped this question**

**Q22 Q16** How important is a cap or a mechanism to go beyond the cap? Please provide further details. **Respondent skipped this question**

**Q23 Q17** What features of a Ministerial discretion or pre-registration would make them most effective? Please describe. **Respondent skipped this question**

**Q24 Q18** What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe. **Respondent skipped this question**

**Q25 Q19** Are there any other risks that need to be managed? Please describe. **Respondent skipped this question**

**Q26 Q20** Are there risks with extending penalties to external advisors in this way? **Respondent skipped this question**

**Q27 Q21** What is the right level of information required to support a claim?

The same level of information as would be required for any tax compliance.

**Q28 Q22** What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Opportunities would improve if software development was included in funded R&D.

R & D Tax Incentive

**Q29** Q23 What integrity measures do you think Inland Revenue should use?

No different than any other integrity measures.

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**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

**Yes,**

Contact details:

s 9(2)(a)

**Q31** Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

Respondent skipped this question

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#61

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 2:08:53 PM  
**Last Modified:** Friday, June 01, 2018 2:29:09 PM  
**Time Spent:** 00:20:15  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:**

Name s 9(2)(a)  
 Email address

**Q2 (ii) For organisations:**

Name of organisation **First Five Limited**  
 Contact person name s 9(2)(a)  
 Position

**Q3 (iii) How long has your business been operating in New Zealand?** **Less than 2 years**

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** **No employees**

**Q5 (v) What industry sector does your business operate in?** **M Professional, scientific, & technical**

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Project Grant **None**  
 R&D Growth Grant **None**

**Q7 (vii) Has your organisation ever received any other R&D government support?** **No**

Page 3: Questions asked in the discussion document

**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

No impact from them being excluded as they can already access government funding. Also, they are not trading enterprises and tend to want to develop the nice to have rather than for commercial reasons. They should also be handing over their IP to private enterprises to commercialise.

**Q9 Q2** How well does this definition apply to business R&D carried out in New Zealand?

It will be difficult to use this definition for ICT type research and development. The definition of "scientific" is very narrow and emphasis needs to be on how "difficult" or how "technologically difficult" the R&D is and if the outcome is "uncertain".

**Q10 Q3** Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

It could exclude some IT R&D. Was what Xero developed scientific and the answer is no but it was uncertain. Xero has used all know software coding. They have just put together a product using standard coding methods.

**Q11 Q4** Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

Yes see Q3

**Q12 Q5** What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

If materiality was applied then it is possible that some leading-edge developments will not get funded. It is not always possible to know what the end may look like. If that was possible then there would be no risks involved and everything would be a commercial success.

**Q13 Q7** Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

Q7. There is really only one proposed and current exclusion that can be difficult and that is the preproduction activities such as tooling but certainly not commercial viability as that is a marketing/commercialisation issue. Tooling however is often a iterative process, partially eliminated in the modern world by 3D printing techniques, but has a high level of uncertainty.

**Q14 Q8** Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

No Comment

**Q15 Q9** What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

The whole point of government support for R&D must be to de risk uncertainty. Therefore, BAU should be eliminated. However, that can be difficult and under a tax incentive scheme much harder to police.

**Q16 Q10** What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

There are considerable non-labour costs involved in R&D such as travel, building of specific purpose labs (not required after completion of the R&D) and for the recruitment and incentivising of trial customers such as in clinical trials. Clinical trials are not usually able to be completed in NZ due to our small population and therefore these costs are not a domestic spend. There does need to be some way to allow for that situation while still making sure most costs are domestic. Tax incentive schemes do not naturally allow for any discretionary activities.

**Q17 Q11** What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Overhead costs. Having been involved in the current scheme where overhead costs are a legitimate expense no matter which method is used to justify the overhead cost you will have winners and losers. A fixed overhead % of labour costs is simple to apply and monitor but will allow for some people to receive more than the actual cost. But the reverse can also be true. It would be very hard to assess overhead for a tax incentive and therefore it is probably better to not allow these costs.

**Q18 Q12** Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

This is a way to rot the system. As stated in other places above the idea of government funding of R&D is to de-risk the effect of R&D therefore if that risk has already been eliminated by say a customer of the company doing the R&D paying a portion of the development costs, but not all, then balance is just a commercial risk and therefore should not receive any taxpayer funding. Examples of this can be seen in robotics for say a meat processing factory.

**Q19 Q13** What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

The whole definition for software R&D needs to be considered because as stated earlier not a lot of software R&D is using scientifically new methods and in fact usually are just a merging of several bits of knowledge.

**Q20 Q14** Are there reasons why continuity rules should not apply to tax credits? Please describe.

When a company is beginning a R&D programme it is very likely that the shareholders will change and the continuity rules would eliminate any tax benefit. While this can be overcome by careful structuring of the ownerships it should be not necessary as the only gain will be for lawyers and accountants. Make the tax incentive for R&D a different tax class where the continuity rules don't apply would be sensible.

**Q21 Q15** Is the minimum threshold set at the right level?

**No,**

If 'no', please provide further details.:

No, it needs to be higher. The current hurdle of \$300k is too low so \$100k is even worse. As there is still to be project grants which will more than likely be used more frequently when growth grants are eliminated, especially for companies that are a long way away from using the tax credit we need to make sure that those receiving a tax credit are serious R&D companies. At \$100k per year it would not be difficult for any company to just then be given a few thousand dollars without really doing any R&D.

**Q22 Q16** How important is a cap or a mechanism to go beyond the cap? Please provide further details.

A cap is not really important as there are very few companies that are able to exceed the proposed level. However, a minimum R&D spend threshold to revenue as is the case with the growth grant should be considered.

**Q23 Q17** What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Ministerial discretion or pre-registration is difficult. Given the numbers suggested it would seem unnecessary as very few will exceed the proposed cap.

**Q24 Q18** What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Transparency is important but not at the cost of disclosing commercially sensitive information. Having said that the proposals in that regard could be workable. More importantly would be for the public to know who is behind some of these businesses. A lot these owners hide behind Trusts and these people need to be known. The information on the grants being claimed should be added to the Stat NZ's longitudinal Business database.

**Q25 Q19** Are there any other risks that need to be managed? Please describe.

One big risk is structuring to overcome maximums and minimums. I know of a company under the Growth grant scheme that did not spend sufficient on R&D to meet the 1.5% of revenue spend on R&D so set up a subsidiary that actually had no revenue but carried out all the R&D for the group. This was stopped so there should be a grouping rule and a definition of what constitutes a group. Also, shareholding disclosure beyond the first level of shareholders needs to be considered (e.g. Trusts).

**Q26 Q20** Are there risks with extending penalties to external advisors in this way?

None that matter.

**Q27 Q21** What is the right level of information required to support a claim?

The business needs to be able to describe the R&D detail, The reason for the R&D, their own internal business case, returns expected, what was difficult and why, number of people involved in R&D versus the number for BAU. If the same people are used in R&D and for BAU how they propose recording the split. If applying to be an R&D company in advance then this information should be disclosed in the application. The business should also be able to prove that they are solvent at the time of the application and how they will stay solvent during the R&D journey.

**Q28 Q22** What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

This should be no different than say completing a GST return which most 3rd party accounting cloud software providers do today. It should also be possible the 3rd party suppliers to be able to submit the application in advance of a claim.

**Q29 Q23** What integrity measures do you think Inland Revenue should use?

IRD needs to have specialised R&D staff team that have the same level of authority that tax (accounting) staff have today. Using Callaghan Innovation to support the IRD is possible but they have a double job of also promoting R&D and would always tend to be on the side of the applicant business. This happens today with growth grants where Callaghan staff have been known to promote a growth grant when what is best for customer is a project grant.

R & D Tax Incentive

**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process? **Yes,**

Contact details:

s 9(2)(a)

**Q31** Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

I see the biggest issues being

1. The level of the tax incentive at 12.5% being too light

2. Business that are in a tax loss situation do not need a tax incentive but need CASH. A tax incentive does not deliver that. There fore you would possibly be better with a growth grant scheme for tax loss companies such as Orion health, Rocket Lab etc and a tax incentive for the larger companies such as Fisher and Paykel.

Project grants are good product and do have a lot of necessary hurdles that businesses complain about but is necessary to make sure the R&D being prosed is really R&D.Also,

the cap that is applied at \$800k should be lifted if growth grants are to disappear.

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# #40

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 2:29:18 PM  
**Last Modified:** Friday, June 01, 2018 2:39:58 PM  
**Time Spent:** 00:10:39  
**IP Address:** s 9(2)(a)

Page 2

**Q1 (i) For individuals**

Name s 9(2)(a)  
 Email address

**Q2 (ii) For organisations**

Name of organisation **First Five limited**  
 Contact person name s 9(2)(a)  
 Position

**Q3 (iii) How long has your business been operating in New Zealand?** **Less than 2 years**

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** **No employees**

**Q5 (v) What industry sector does your business operate in?** **Professional, scientific, & technical**

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Project Grant **None**  
 R&D Growth Grant **None**

**Q7 (vii) Has your organisation ever received any other R&D government support?** **No**

**Q8 How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.)** **Unlikely**



**Q9** How much R&D does your organisation expect to carry out in the coming year? **None**

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Page 3: Responses to questions in the consultation document

**Q10 Q1** What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

Speaking on behalf of my customers could mean they are not funded for a considerable period of time. Currently there is certainty of funding and this now seems uncertain.

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**Q11 Q2** What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

I think the new scheme should not come into affect until the replacement for the transitional funding is known and in place. 2021 is when the last of any new Growth grant will expire.

If a company has been approved for growth grant in the 2018/19 year then that program should be allowed to complete in the 2020/21 year. All contract approved before that date should stop at the end of the 3 year period and any extension approved during the period until march 2019 should be allowed to continue until the 2 years has ended.

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**Q12 Q3** What impact will the proposed transition arrangements have on your R&D programme over the next few years?

None for my own company but for my clients they could be worse off

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**Q13 Q4** Please provide any other comments about the proposed transition arrangements.

Refer to question 2

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**Q14 Q5** For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

The transition arrangements are unclear so can't easily be commented on however what will be important is not needing to spend too much time on new application processes.

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#60

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 2:01:55 PM  
**Last Modified:** Friday, June 01, 2018 2:19:12 PM  
**Time Spent:** 00:17:17  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:**

**Name** s 9(2)(a)  
**Email address** [REDACTED]

**Q2 (ii) For organisations:**

**Name of organisation** Thought-Wired Ltd  
**Position** s 9(2)(a)

**Q3 (iii) How long has your business been operating in New Zealand?** 2 to less than 6 years

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** 1 - 5

**Q5 (v) What industry sector does your business operate in?** M Professional, scientific, & technical

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

**R&D Project Grant** 2015, 2017

**Q7 (vii) Has your organisation ever received any other R&D government support?** Respondent skipped this question

Page 3: Questions asked in the discussion document

**Q8 Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?** Respondent skipped this question

**Q9** Q2 How well does this definition apply to business R&D carried out in New Zealand? **Respondent skipped this question**

**Q10** Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

Yes, it excludes a raft of activities contributing to R&D of information technology/digital products and services including design, human factors research, user research and user testing, etc. These activities are integral to development of successful products and services based on technology since technology alone doesn't create great product. For instance, iPhone, iPad and similar products from Apple aren't just pieces of technology but mostly extremely well designed products which made them successful.

**Q11** Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

As in Q3, R&D should not be thought of just only exercise in science in technology as those two do not create successful products and therefore successful businesses by themselves. Understanding of customer needs and translating those into robust design is equally important as the underlying science and technology. These activities have to be and will be performed by successful business while not funding them will prevent smaller, less capitalised companies to even attempt the science and technology part of R&D because they'd struggle to fund the rest of product development.

**Q12** Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology? **Respondent skipped this question**

**Q13** Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe. **Respondent skipped this question**

**Q14** Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand? **Respondent skipped this question**

**Q15** Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe. **Respondent skipped this question**

**Q16** Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe. **Respondent skipped this question**

**Q17** Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe. **Respondent skipped this question**

**Q18** Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe. **Respondent skipped this question**

## R & D Tax Incentive

**Q19** Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities? Respondent skipped this question

---

**Q20** Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe. Respondent skipped this question

---

**Q21** Q15 Is the minimum threshold set at the right level? Respondent skipped this question

---

**Q22** Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details. Respondent skipped this question

---

**Q23** Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe. Respondent skipped this question

---

**Q24** Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe. Respondent skipped this question

---

**Q25** Q19 Are there any other risks that need to be managed? Please describe. Respondent skipped this question

---

**Q26** Q20 Are there risks with extending penalties to external advisors in this way? Respondent skipped this question

---

**Q27** Q21 What is the right level of information required to support a claim? Respondent skipped this question

---

**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software? Respondent skipped this question

---

**Q29** Q23 What integrity measures do you think Inland Revenue should use? Respondent skipped this question

---

**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process? Respondent skipped this question

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**Q31** Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here. Respondent skipped this question

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# #59

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 1:51:45 PM  
**Last Modified:** Friday, June 01, 2018 2:09:15 PM  
**Time Spent:** 00:17:30  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:** Respondent skipped this question

**Q2 (ii) For organisations:**

Name of organisation: **Synlait Milk Ltd.**  
 Contact person name: s 9(2)(a)  
 Position:

**Q3 (iii) How long has your business been operating in New Zealand?** **10 years or more**

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** **100 or more**

**Q5 (v) What industry sector does your business operate in?** **C Manufacturing**

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Project Grant: **2012**

R&D Growth Grant: **None**

**Q7 (vii) Has your organisation ever received any other R&D government support?** **Yes,**  
 If yes, please specify names of grant(s)/support.:  
 PGP

Page 3: Questions asked in the discussion document

**Q8 Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?** Respondent skipped this question

**Q9 Q2** How well does this definition apply to business R&D carried out in New Zealand?

The definition captures most R&D carried out in a dairy manufacturing company. However, we suggest that 'systems' should be added to the definition (as per NZ IAS 38 definition). For example, R&D can help improve farming systems to reduce the environmental footprint or improve animal welfare – this type of work should be in scope of an R&D incentive. We are unsure whether the proposed definition would capture this.

The definition should include examples of what would be considered R&D.

**Q10 Q3** Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

We believe that this definition should be wider than proposed. We interpret the proposed definition to only include activities that directly support an R&D activity, e.g. to carry out a science review that will inform the R&D activity itself. However, we believe that activities that help plan R&D should also be included in the definition, as it can help reduce the risk of R&D being irrelevant and not having a reasonable chance of commercial viability. For example, consumer/market research can help identify whether the investment in a certain piece of R&D is in fact useful.

As an example, as a food business we may be looking at doing R&D to improve the nutritional properties of our products, thereby supporting overall health of our customers (e.g. developing products with sweetness enhancers to reduce added sugar levels). However, consumers may perceive the changes as something negative (e.g. if they perceive the sweetness enhancer as 'chemical') and may not want to buy such a product, which means that investment in this piece of R&D could be misguided – without market/consumer research it is impossible to know whether R&D will address an actual consumer need and/or will be accepted by consumers.

**Q11 Q4** Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

Respondent skipped this question

**Q12 Q5** What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

We do not consider that materiality should be applied to the "problem" and even question whether having a problem in the first place should be part of the requirements. Some appropriate R&D will target improvements and not necessarily solve a problem (i.e. proactive R&D instead of reactive).

**Q13 Q7** Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

We believe that some of the proposed exclusions should not apply to support activities, e.g.

- Market / consumer research can help identify problems that should be addressed through R&D and can help drive innovation.
- Reproduction of a commercial product or process by a physical examination of an existing system can be a useful tool for doing R&D – e.g. it can give valuable insights into the mechanisms behind a problem that needs to be solved. While a reproduction of commercial product/process may not be R&D on its own if no further development work is done, it can be R&D if it is used for the purpose of researching mechanisms and using that acquired knowledge to develop an improved product.
- Overseas R&D should be included if required services/capabilities are not available in New Zealand; overseas R&D work will help bring international knowledge into the country and therefore can enhance NZ's R&D capabilities.

**Q14 Q8** Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

Social science research (e.g. consumer research) is regularly used to identify problems that can/should be addressed through R&D – as such it is essential for driving innovation.

**Q15 Q9** What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Respondent skipped this question

**Q16 Q10** What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

While this may be simpler to calculate the credit and could arguably encourage job creation in R&D, it may encourage solely job creation but not focus to value adding research for technology that could generate commercially viable outcomes.

**Q17 Q11** What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

See comment to Q10.

**Q18 Q12** Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

In a situation where an industry body (such as dairy NZ) undertakes research on behalf of industry participants and receives contributions from its members, it should also be eligible for the credit as undertaking R&D at an individual member level may be uneconomic and lacking critical mass to be effective.

**Q19 Q13** What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

Respondent skipped this question

**Q20 Q14** Are there reasons why continuity rules should not apply to tax credits? Please describe.

Respondent skipped this question

**Q21 Q15** Is the minimum threshold set at the right level?

Respondent skipped this question

**Q22 Q16** How important is a cap or a mechanism to go beyond the cap? Please provide further details.

Respondent skipped this question

**Q23 Q17** What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Respondent skipped this question

**Q24 Q18** What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Respondent skipped this question

R & D Tax Incentive

**Q25** Q19 Are there any other risks that need to be managed? Please describe.

Respondent skipped this question

**Q26** Q20 Are there risks with extending penalties to external advisors in this way?

The obligation for correct filing should always rest with the taxpayer. Remedies for inaccurate or misleading advice from consultants should remain as contractual.

**Q27** Q21 What is the right level of information required to support a claim?

Respondent skipped this question

**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Respondent skipped this question

**Q29** Q23 What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process? **Yes**

**Q31** Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

The proposed level of funding (12.5%) may not be a sufficient incentive to increase R&D.

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# #57

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Thursday, May 31, 2018 8:58:30 AM  
**Last Modified:** Friday, June 01, 2018 1:36:45 PM  
**Time Spent:** Over a day  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:** Respondent skipped this question

**Q2 (ii) For organisations:**

Name of organisation: **LeaderBrand Produce Ltd**  
 Contact person name: s 9(2)(a)  
 Position:

**Q3 (iii) How long has your business been operating in New Zealand?** **10 years or more**

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** **100 or more**

**Q5 (v) What industry sector does your business operate in?** **A Agriculture, forestry, & fishing**

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Project Grant: **None**  
 R&D Growth Grant: **None**

**Q7 (vii) Has your organisation ever received any other R&D government support?** **Yes,**  
 If yes, please specify names of grant(s)/support.:  
 2012 Capability Grant (Getting Started & Expert)  
 Callaghan 2017 R&D Experience Grant - Callaghan

Page 3: Questions asked in the discussion document

## R & D Tax Incentive

**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

Do not see this having an impact. This will not stop private businesses from engaging with experts from CRIs, Tertiary Institutions etc. Am assuming that the cost of engaging with these experts will be eligible for the tax incentive.

**Q9 Q2** How well does this definition apply to business R&D carried out in New Zealand?

Good definition for both core and support activities.

**Q10 Q3** Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

Food systems are complex and as such will always required extensive trials around product development - a lot of this is about resolving scientific or technical uncertainty. However, a large part of this can involve sensory analysis and consumer insights which then direct further developments. This definition along with the noted exclusions from the tax incentive indicate that there may be some question mark over whether sensory trials would be eligible.

Development of new products can involve large amount of uncertainty. This requires development of prototypes for market assessment and also trials to assess commercial viability. Alongside this, packaging solutions, validation or sanitation or sterilisation processes and assessment of waste streams are needed. I can see some overlap with the exclusion of "pre-production activities, such as demonstration of commercial viability, tooling-up and trial runs" and the definition which talks about research for the purpose of creating new or improved products or processes, that are intended to advance science or technology through the resolution of scientific or technological uncertainty. It would need to be clear where R&D stops and pre-production activities begin.

**Q11 Q4** Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

As growers and processors, this is generally appropriate for us however application of existing knowledge within the public domain (via peer reviewed publications, patents etc) to our own business which enables us to understand our processes/products better is also important. It is not uncommon for research activities within the public sector to be more blue skies and devoid of any immediate technology transfer. Technology transfer is an important part of the R&D process and where NZ businesses can see a lot of value.

**Q12 Q5** What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

Respondent skipped this question

**Q13 Q7** Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

Respondent skipped this question

**Q14 Q8** Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

Respondent skipped this question

## R & D Tax Incentive

**Q15 Q9** What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Dual purpose exclusions are of huge concern for us. For us to run trials efficiently, we need to do them alongside usual production otherwise the labour and overhead costs in performing the research is prohibitive. As examples, we grow our own materials for trials. Often we need large volumes and they will be grown alongside crops for the domestic market - using the definition provided, growing that crop would be for both R&D and non-R&D purposes so the entire activity would not qualify as an R&D activity. The same situation applies for us when we run trials in our processing plants. As an example, we may process a particular product for sale and then at the end of the run trial different films or gas levels and retain that product for intensive shelf life evaluations. It's unclear where the boundaries are here and I can see that we may be penalised by being cost and time efficient with how we do our R&D. The impact of the dual purpose activity exclusion would be that it would cost us more to do R&D and we would ultimately do less R&D.

**Q16 Q10** What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

It is only a small proportion of the cost of doing R&D.

**Q17 Q11** What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Overhead costs calculated as a percentage is a simple option. Prefer simplicity being use for this calculation rather than eligible expenditure.

**Q18 Q12** Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

Respondent skipped this question

**Q19 Q13** What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

Respondent skipped this question

**Q20 Q14** Are there reasons why continuity rules should not apply to tax credits? Please describe.

Respondent skipped this question

**Q21 Q15** Is the minimum threshold set at the right level?

Yes

**Q22 Q16** How important is a cap or a mechanism to go beyond the cap? Please provide further details.

Respondent skipped this question

**Q23 Q17** What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Respondent skipped this question

**Q24 Q18** What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Respondent skipped this question

R & D Tax Incentive

**Q25** Q19 Are there any other risks that need to be managed? Please describe.

Respondent skipped this question

**Q26** Q20 Are there risks with extending penalties to external advisors in this way?

Respondent skipped this question

**Q27** Q21 What is the right level of information required to support a claim?

Where additional government funding has been obtained (e.g. via Callghan Project Grants), it will need to be clear what R&D expenditure has already been covered through other grants to avoid double dipping.

**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Respondent skipped this question

**Q29** Q23 What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Yes,  
Contact details:

s 9(2)(a)

**Q31** Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

Respondent skipped this question

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# #56

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 1:03:30 PM  
**Last Modified:** Friday, June 01, 2018 1:31:59 PM  
**Time Spent:** 00:28:29  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:**

Respondent skipped this question

**Q2 (ii) For organisations:**

Name of organisation  
 Contact person name  
 Position

Pacific Edge Limited

s 9(2)(a)

**Q3 (iii) How long has your business been operating in New Zealand?**

10 years or more

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.**

20 - 49

**Q5 (v) What industry sector does your business operate in?**

Q Health care & social assistance

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Project Grant  
 R&D Growth Grant

2012, 2013  
 2013, 2014, 2015, 2016, 2017

**Q7 (vii) Has your organisation ever received any other R&D government support?**

Yes,  
 If yes, please specify names of grant(s)/support.:  
 NZTE Callaghan Institute Intern Fellowships

Page 3: Questions asked in the discussion document

## R & D Tax Incentive

**Q8** Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

Respondent skipped this question

**Q9** Q2 How well does this definition apply to business R&D carried out in New Zealand?

Respondent skipped this question

**Q10** Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

Respondent skipped this question

**Q11** Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

Respondent skipped this question

**Q12** Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

Respondent skipped this question

**Q13** Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

Respondent skipped this question

**Q14** Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

Respondent skipped this question

**Q15** Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Respondent skipped this question

**Q16** Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

Major disadvantage is that there may be insufficient capex and open resources to use additional labour effectively.

**Q17** Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Advantage is simplicity. Disadvantage is that necessary associated overheads, e.g. IT can't be correctly costed and hence there may be insufficient resources to efficiently use additional resources.

**Q18** Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

Respondent skipped this question

**Q19** Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities? **Respondent skipped this question**

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**Q20** Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe. **Respondent skipped this question**

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**Q21** Q15 Is the minimum threshold set at the right level? **No,**  
If 'no', please provide further details.:  
There is no need for a minimum threshold.

---

**Q22** Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.

A business such as ours, in a tax loss situation, will not benefit at all from the Tax incentive scheme. A cap is more or less irrelevant as it is not worth gaming.

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**Q23** Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

If a cap is abandoned, this question is irrelevant

---

**Q24** Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Pacific Edge is not in favour of making any information on level of R&D support available as this may infringe in NZX Disclosure requirements.

Evaluation must include assembling data on the reductions in R&D spend as a result of the Tax Incentives as opposed to the Growth Grant and the extent that R&D is moved offshore.

---

**Q25** Q19 Are there any other risks that need to be managed? Please describe.

As above, the major issue of moving from the Growth Grant of 20% to a Tax Incentive of 12.5% is a reduction in R&D in NZ most innovative companies and a migration of R&D capacity and capability offshore. Australia with tax credits of 43% becomes highly attractive. The goal of attracting offshore investment to NZ, as a result of Tax Incentives, seems to ignore the issue of our nearest neighbours having a more attractive scheme. Why invest in NZ for a lower incentive?

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**Q26** Q20 Are there risks with extending penalties to external advisors in this way?

The Growth Grant audit system totally obviates the need for penalties.

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**Q27** Q21 What is the right level of information required to support a claim?

Third party audit is the only effective system, such as is used in the Growth Grant.

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R & D Tax Incentive

**Q28 Q22** What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

this seems reasonable

**Q29 Q23** What integrity measures do you think Inland Revenue should use?

IRD is ill equipped to measure R&D and its performance. It should contract this out.

**Q30 Q24** Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Yes,

Contact details:

s 9(2)(a)

**Q31 Q25** Please provide any other feedback you may have on the proposed R&D tax incentive here.

From a PEL perspective the Tax Incentive proposal is a disaster as regards our R&D programme.

Scenarios based on FY18 R&D expenditure:

s 9(2)(b)(ii)

Any way we perform calculations, we will have much less R&D support. Simply put it is short on cash. For rapidly growing companies cash is the lubricant for R&D. Without cash there will be less R&D in NZ, innovation will move offshore and NZ competitive position will be significantly eroded. Our Company is seriously disadvantaged by the Tax Incentive scheme.

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#32

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Monday, May 28, 2018 2:57:10 PM  
**Last Modified:** Friday, June 01, 2018 11:40:31 AM  
**Time Spent:** Over a day  
**IP Address:** s 9(2)(a)

Page 2

**Q1 (i)** For individuals

Respondent skipped this question

**Q2 (ii)** For organisations

Name of organisation  
 Contact person name  
 Position

**Pacific Edge Limited**

s 9(2)(a)

**Q3 (iii)** How long has your business been operating in New Zealand?

**10 years or more**

**Q4 (iv)** How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.

**20 – 49**

**Q5 (v)** What industry sector does your business operate in?

**Health care & social assistance**

**Q6 (vi)** Has your organisation ever received a R&D project or R&D growth grant?

R&D Project Grant  
 R&D Growth Grant

**2012**  
**2017**

**Q7 (vii)** Has your organisation ever received any other R&D government support?

**Yes,**  
 If yes, please specify names of grant(s)/support.:  
 NZTE Callaghan Innovation Student and Graduate Fellowships

**Q8** How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.)

**Very unlikely**

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**Q9** How much R&D does your organisation expect to carry out in the coming year?

s 9(2)(b)(ii)

Page 3: Responses to questions in the consultation document

**Q10 Q1** What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

We expect that our Growth Grant will be extended to the end of March 2020. If the Growth Grant ceases at that time, PEL will be eligible for the Tax Incentive scheme. However as we are in a tax loss situation, and tax breaks are indicated rather than cash refunds, s 9(2)(b)(ii). This means that our R&D programme will be significantly reduced in New Zealand and we may seek to move R&D offshore.

**Q11 Q2** What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

Ideally we would want retention of the existing Growth Grant indefinitely, as it provides financial certainty and quarterly payments to ease cash flow. If this is not possible we would want a transitional period that was sufficiently long to enable programmes currently funded by the Growth Grant to be completed. We anticipate that 3-5 years would be required.

**Q12 Q3** What impact will the proposed transition arrangements have on your R&D programme over the next few years?

With the existing proposed arrangements, we will need to reduce our R&D programme and/or move it offshore.

**Q13 Q4** Please provide any other comments about the proposed transition arrangements.

Many of NZ most innovative companies that are currently benefiting from the Growth Grant are not paying tax. Tax incentives that are credits rather than paid in cash are of limited use as such companies already have tax credits - that they can't use. While this is a fault of the proposed system rather than the transition arrangements per se, it will mean that innovation in NZ will be suppressed and driven offshore.

**Q14 Q5** For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

Assuming we receive the full amount that we would expect to have received from the Growth Grant there is no immediate effect. However we will have to plan for the changes and this will lead to uncertainty among key R&D staff. Over the year we will lose staff, many with key skills, and overall we will see an erosion of R&D capacity and capability.

#55

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 12:46:20 PM  
**Last Modified:** Friday, June 01, 2018 12:52:12 PM  
**Time Spent:** 00:05:51  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:**

Name: s 9(2)(a)  
 Email address: [Redacted]

**Q2 (ii) For organisations:**

Name of organisation: **Advanced Materials Technolgoies**

**Q3 (iii) How long has your business been operating in New Zealand?**

**Less than 2 years**

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.**

**1 - 5**

**Q5 (v) What industry sector does your business operate in?**

**M Professional, scientific, & technical**

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Project Grant: **None**

R&D Growth Grant: **None**

**Q7 (vii) Has your organisation ever received any other R&D government support?**

**No**

Page 3: Questions asked in the discussion document

**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

**Respondent skipped this question**

## R & D Tax Incentive

<b>Q9</b> Q2 How well does this definition apply to business R&D carried out in New Zealand?	Respondent skipped this question
<b>Q10</b> Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?	Respondent skipped this question
<b>Q11</b> Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?	Respondent skipped this question
<b>Q12</b> Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?	Respondent skipped this question
<b>Q13</b> Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.	Respondent skipped this question
<b>Q14</b> Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?	Respondent skipped this question
<b>Q15</b> Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.	Respondent skipped this question
<b>Q16</b> Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.	Respondent skipped this question
<b>Q17</b> Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.	Respondent skipped this question
<b>Q18</b> Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.	Respondent skipped this question
<b>Q19</b> Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?	Respondent skipped this question
<b>Q20</b> Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe.	Respondent skipped this question

## R & D Tax Incentive

**Q21** Q15 Is the minimum threshold set at the right level?

**No,**

If 'no', please provide further details.:

The proposed minimum disadvantages small start ups and backyard innovators. I believe that it should be set much lower.

**Q22** Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.

Respondent skipped this question

**Q23** Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Respondent skipped this question

**Q24** Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Respondent skipped this question

**Q25** Q19 Are there any other risks that need to be managed? Please describe.

Respondent skipped this question

**Q26** Q20 Are there risks with extending penalties to external advisors in this way?

Respondent skipped this question

**Q27** Q21 What is the right level of information required to support a claim?

Respondent skipped this question

**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Respondent skipped this question

**Q29** Q23 What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Respondent skipped this question

**Q31** Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

It may attract larger companies but they may have no interest in developing the business in NZ or for NZ'ers. Taxpayer money should be spent for the benefit of taxpayers, not big business

#54

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 12:27:08 PM  
**Last Modified:** Friday, June 01, 2018 12:40:15 PM  
**Time Spent:** 00:13:07  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i)** For individuals:

Name

s 9(2)(a)

Email address

**Q2 (ii)** For organisations:

Respondent skipped this question

**Q3 (iii)** How long has your business been operating in New Zealand?

Respondent skipped this question

**Q4 (iv)** How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.

Respondent skipped this question

**Q5 (v)** What industry sector does your business operate in?

Respondent skipped this question

**Q6 (vi)** Has your organisation ever received a R&D project or R&D growth grant?

Respondent skipped this question

**Q7 (vii)** Has your organisation ever received any other R&D government support?

Respondent skipped this question

Page 3: Questions asked in the discussion document

**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

Respondent skipped this question

**Q9 Q2** How well does this definition apply to business R&D carried out in New Zealand?

Respondent skipped this question

## R & D Tax Incentive

<b>Q10</b> Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?	Respondent skipped this question
<b>Q11</b> Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?	Respondent skipped this question
<b>Q12</b> Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?	Respondent skipped this question
<b>Q13</b> Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.	Respondent skipped this question
<b>Q14</b> Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?	Respondent skipped this question
<b>Q15</b> Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.	Respondent skipped this question
<b>Q16</b> Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.	Respondent skipped this question
<b>Q17</b> Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.	Respondent skipped this question
<b>Q18</b> Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.	Respondent skipped this question
<b>Q19</b> Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?	Respondent skipped this question
<b>Q20</b> Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe.	Respondent skipped this question
<b>Q21</b> Q15 Is the minimum threshold set at the right level?	Yes

## R & D Tax Incentive

**Q22** Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.

I believe that there should be a cap on the level that any one company (or groups of related companies) can claim. The proposed \$15m is too high and will only result in a benefit to larger companies, capable of funding their own R&D. I do not expect that the tax credit will result in any significant increase in high quality R&D activity in NZ.

**Q23** Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

No discretion should be provided.

**Q24** Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Respondent skipped this question

**Q25** Q19 Are there any other risks that need to be managed? Please describe.

Respondent skipped this question

**Q26** Q20 Are there risks with extending penalties to external advisors in this way?

Penalties should be extended to cover external advisors especially where their remuneration is linked to the amount of any claim. The government should also look at setting a maximum fee payable to any external advisors where the remuneration is linked to a claim. The last time the R&D Tax Credits were introduced certain accounting firms apparently tried to charge upwards of 33% of any rebate.

**Q27** Q21 What is the right level of information required to support a claim?

Respondent skipped this question

**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Respondent skipped this question

**Q29** Q23 What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Yes



**Q31 Q25** Please provide any other feedback you may have on the proposed R&D tax incentive here.

I am concerned that the government appears to be taking a piecemeal approach to this issue. It would be better to look at a total review of the R&D issues.

- (1) Evidence shows that NZs R&D output is of relatively low quality. Before spending more maybe we need to get a better return on existing investment.
  - (2) The eco-system established to support commercialisation of innovation has become too focused on quantity and not quality. Limited or no accountability, poor performance where only those "in the system" seem to be prospering. Refer to Powerhouse Venutres as a classic example of all that is wrong with the system.
  - (3) Need to seriously address how loss-making companies are supported.
- 

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#33

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 12:40:28 PM  
**Last Modified:** Friday, June 01, 2018 12:45:14 PM  
**Time Spent:** 00:04:46  
**IP Address:** s 9(2)(a)

Page 2

**Q1 (i) For individuals**

Name

s 9(2)(a)

Email address

**Q2 (ii) For organisations**

Respondent skipped this question

**Q3 (iii) How long has your business been operating in New Zealand?**

Respondent skipped this question

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.**

Respondent skipped this question

**Q5 (v) What industry sector does your business operate in?**

Respondent skipped this question

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

Respondent skipped this question

**Q7 (vii) Has your organisation ever received any other R&D government support?**

Respondent skipped this question

**Q8 How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.)**

Respondent skipped this question

**Q9 How much R&D does your organisation expect to carry out in the coming year?**

Respondent skipped this question

Page 3: Responses to questions in the consultation document

Growth Grant Transition

**Q10 Q1** What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

For any company that has been approved for a Growth Grant, any transition that does not provide the same cashflow this could have serious ramifications. And despite the views of some (with vested interest) securing funding in NZ is a major challenge. I suspect that the changes proposed will result in some companies having to cut back on R&D and some companies being forced to fail.

**Q11 Q2** What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

the transition should be for the period of the approved grant to each company. Or if not that any replacement replicates the grant.

**Q12 Q3** What impact will the proposed transition arrangements have on your R&D programme over the next few years?

Respondent skipped this question

**Q13 Q4** Please provide any other comments about the proposed transition arrangements.

Respondent skipped this question

**Q14 Q5** For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

Respondent skipped this question

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#52

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 11:29:39 AM  
**Last Modified:** Friday, June 01, 2018 12:21:00 PM  
**Time Spent:** 00:51:21  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:**

Name s 9(2)(a)  
 Email address

**Q2 (ii) For organisations:**

Name of organisation **Coherent Solutions LTD**  
 Contact person name s 9(2)(a)  
 Position

**Q3 (iii) How long has your business been operating in New Zealand?** 2 to less than 6 years

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** 20 - 49

**Q5 (v) What industry sector does your business operate in?** J Information media &

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Project Grant 2016, 2017

**Q7 (vii) Has your organisation ever received any other R&D government support?** No

Page 3: Questions asked in the discussion document

**Q8 Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?** Respondent skipped this question

## R & D Tax Incentive

**Q9** Q2 How well does this definition apply to business R&D carried out in New Zealand? Respondent skipped this question

---

**Q10** Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples? Respondent skipped this question

---

**Q11** Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples? Respondent skipped this question

---

**Q12** Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology? Respondent skipped this question

---

**Q13** Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe. Respondent skipped this question

---

**Q14** Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand? Respondent skipped this question

---

**Q15** Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe. Respondent skipped this question

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**Q16** Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe. Respondent skipped this question

---

**Q17** Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe. Respondent skipped this question

---

**Q18** Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

No objection when commercial consideration IS received. But I object to the COULD be received. Most R&D has an expectation that further in the life cycle commercialization of the R&D will be achieved. The COULD blurs these lines.

---

**Q19** Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

We are both a hardware and a software company. Software R&D is a very big part of our R&D. It is critical to us that software is properly included in the R&D credit.

---

**Q20** Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe.

Respondent skipped this question

**Q21** Q15 Is the minimum threshold set at the right level?

No,

If 'no', please provide further details.:

s 9(2)(b)(ii)

the threshold should be \$0. A threshold of \$0 would remove the burden on small startup companies and encourage small innovative groups of individuals to create startups.

**Q22** Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.

Respondent skipped this question

**Q23** Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Respondent skipped this question

**Q24** Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Respondent skipped this question

**Q25** Q19 Are there any other risks that need to be managed? Please describe.

Respondent skipped this question

**Q26** Q20 Are there risks with extending penalties to external advisors in this way?

Respondent skipped this question

**Q27** Q21 What is the right level of information required to support a claim?

Respondent skipped this question

**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Respondent skipped this question

**Q29** Q23 What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Respondent skipped this question

R & D Tax Incentive

**Q31 Q25** Please provide any other feedback you may have on the proposed R&D tax incentive here.

The is no section to comment on the Businesses in TAX LOSS in more general terms. So I have put my comments here.

We are in high growth mode as high tech manufacturing Company based in NZ. We export all of products overseas. [REDACTED]

§ 9(2)(b)(ii) [REDACTED]

Any potential profit that we would make is reinvested into our company as R&D. So this tax credit would actually discourage us from performing R&D and limit our growth. The previous project/growth grants have had a huge impact on the number of staff we could employ and the level of R&D we could support. With the R&D credit as structured we would not get any credit and we lose the growth grants from Callaghan. Therefore we estimate we will be forced to cut our R&D by 50-60%. § 9(2)(b)(ii) [REDACTED]

All high growth companies will be impacted in this same fashion. It seems like a big oversight to leave it until 2020-2021 to develop a scheme for businesses that run a loss. In this 3 year period we will have lost a huge opportunity. You will effectively kill the start-up and gih growth community in NZ. Please leave Callaghan growth grants in place in this period to bridge this gap!!!

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#75

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, May 25, 2018 2:13:22 PM  
**Last Modified:** Friday, May 25, 2018 2:49:29 PM  
**Time Spent:** 00:36:06  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:**

Name s 9(2)(a)  
 Email address

**Q2 (ii) For organisations:**

Name of organisation **Wellnomics Ltd**  
 Contact person name s 9(2)(a)  
 Position

**Q3 (iii) How long has your business been operating in New Zealand?** 10 years or more

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** 10 - 19

**Q5 (v) What industry sector does your business operate in?** Respondent skipped this question

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Project Grant 2014, 2015, 2016, 2017

**Q7 (vii) Has your organisation ever received any other R&D government support?** Yes,  
 If yes, please specify names of grant(s)/support.:  
 Previous project grant.

Page 3: Questions asked in the discussion document



## R & D Tax Incentive

**Q8** Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

Respondent skipped this question

**Q9** Q2 How well does this definition apply to business R&D carried out in New Zealand?

Respondent skipped this question

**Q10** Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

Respondent skipped this question

**Q11** Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

Respondent skipped this question

**Q12** Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

Respondent skipped this question

**Q13** Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

Respondent skipped this question

**Q14** Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

Respondent skipped this question

**Q15** Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Respondent skipped this question

**Q16** Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

Respondent skipped this question

**Q17** Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Respondent skipped this question

**Q18** Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

Respondent skipped this question

## R & D Tax Incentive

**Q19** Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities? **Respondent skipped this question**

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**Q20** Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe. **Respondent skipped this question**

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**Q21** Q15 Is the minimum threshold set at the right level? **Respondent skipped this question**

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**Q22** Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.

How many businesses in NZ spend >\$120 million on R&D. Must be just 2-3. Current cap is fine.

---

**Q23** Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Fine idea. Little uncertainty with this, as only 2-3 companies would be above this cap.

---

**Q24** Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Fine.

---

**Q25** Q19 Are there any other risks that need to be managed? Please describe.

No opinion.

---

**Q26** Q20 Are there risks with extending penalties to external advisors in this way?

Sounds unworkable. Would just increase the costs as external advisors increased their fees to compensate for possible 'penalties' for helping a company.

---

**Q27** Q21 What is the right level of information required to support a claim?

Current process with Growth grants strikes excellent balance.

---

**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Current Callaghan online system works well.

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**Q29** Q23 What integrity measures do you think Inland Revenue should use?

No opinion.

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## R & D Tax Incentive

**Q30 Q24** Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process? **Yes**

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**Q31 Q25** Please provide any other feedback you may have on the proposed R&D tax incentive here.

One of the biggest challenges with R&D is by definition its an upfront cost that will (hopefully) be recouped many years later. Accordingly one of the biggest limiting factors on amount of R&D done is cash. You can only invest to the level that your cashflow can support. A big part of R&D costs are salaries - they are costs that can't be deferred. So unless your scheme helps with the cashflow challenge of investing in R&D it won't have any affect.

The current callaghan growth funds provide cash subsidies within an average 2 months of the cost being incurred. This causes a direct increase in the cashflow available for R&D investment (that cash can be used to help fund next 3 months R&D). For loss making companies a tax credit only system would have no benefits at all to cashflow, and would therefore not increase R&D investment at all. For profit reporting businesses, or if a tax credit loss refund scheme was used, there would be a cashflow benefit, but it would be delayed to average 9-12 months after the cost is incurred (provided after EOY accounts completed). Thus the ability to stimulate increased R&D investment would be greatly limited.

This is also missing out the fact that the direct involvement of the Callaghan staff does add significant value as well - they help to cross-connect businesses, promote contact with advisors, and ensure its an R&D discussion, not just an accountants discussion.

In summary, only area of the economy the proposed R&D tax credit is likely to stimulate is the accountancy and financial consulting sector...

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# #16

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, May 25, 2018 1:01:58 PM  
**Last Modified:** Tuesday, May 29, 2018 12:27:44 PM  
**Time Spent:** Over a day  
**IP Address:** s 9(2)(a)

Page 2

**Q1 (i) For individuals**

Name s 9(2)(a)  
 Email address

**Q2 (ii) For organisations**

Name of organisation **Wellnomics Ltd**  
 Contact person name s 9(2)(a)  
 Position

**Q3 (iii) How long has your business been operating in New Zealand?** **10 years or more**

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** **10 – 19**

**Q5 (v) What industry sector does your business operate in?** **Information media &**

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Project Grant **None**  
 R&D Growth Grant **2014**

**Q7 (vii) Has your organisation ever received any other R&D government support?** **Yes,**  
 If yes, please specify names of grant(s)/support.:  
 R&D Project Grant or similar prior to 2012

**Q8** How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.) **Very likely**

**Q9** How much R&D does your organisation expect to carry out in the coming year?

§ 9(2)(b)(ii)

Page 3: Responses to questions in the consultation document

**Q10** Q1 What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

The extension of the current grant to 2020 is good, but after that the replacement of the growth grant with the R&D tax incentive will be quite negative for us. The current growth grant has a significant positive effect upon our working cashflow - with claims every 3 months. The new proposed system will delay cashflow benefits by 6-12 months or more.

**Q11** Q2 What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

I think the current transitional period is acceptable (i.e. extending to 2020)

**Q12** Q3 What impact will the proposed transition arrangements have on your R&D programme over the next few years?

We knew with a change of government that the scheme was under question, so had already removed the growth grants from our forecasting and scaled down our R&D appropriately. Until we have confirmation on the final changes we will not be adding these back in.

**Q13** Q4 Please provide any other comments about the proposed transition arrangements. **Respondent skipped this question**

**Q14** Q5 For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

We are in a loss position currently, although by 2021 we likely (are planned) to no be. However, my understanding is we can, until 2020, keep using the current growth grant with quarterly claims. So that is good from our point of view.

# #45

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 9:39:40 AM  
**Last Modified:** Friday, June 01, 2018 10:37:00 AM  
**Time Spent:** 00:57:20  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:**

Name s 9(2)(a)  
 Email address

**Q2 (ii) For organisations:**

Name of organisation Orion Health  
 Contact person name s 9(2)(a)  
 Position

**Q3 (iii) How long has your business been operating in New Zealand?** 10 years or more

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** 100 or more

**Q5 (v) What industry sector does your business operate in?** J Information media &

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Growth Grant 2012

**Q7 (vii) Has your organisation ever received any other R&D government support?** Yes,  
 If yes, please specify names of grant(s)/support.:  
 Callaghan grants, Partnership Grant as part of Precision Driven Health

Page 3: Questions asked in the discussion document

## R & D Tax Incentive

**Q8** Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

Respondent skipped this question

**Q9** Q2 How well does this definition apply to business R&D carried out in New Zealand?

Respondent skipped this question

**Q10** Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

Respondent skipped this question

**Q11** Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

It isn't clear whether some R&D in software development would qualify. Some examples would be designing and building interoperability between different systems, designing and building new mobile applications, designing and building artificial intelligence systems.

**Q12** Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

Respondent skipped this question

**Q13** Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

The tax incentives are supposed to increase New Zealand investment in R&D, which should be commercialised where feasible.

The support activities are required to lead to commercialisation.

The more exclusions are included, the less attractive R&D becomes, so there will be situations where these exclusions make R&D investment too expensive or risky.

**Q14** Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

New Zealand holds good data on social outcomes, including in health and through systems such as the integrated data infrastructure. Social science research on this data is becoming attractive as health systems globally look to incorporate the social determinants of health outcomes.

**Q15** Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

We want R&D to lead to commercial opportunities for New Zealand. R&D commercialisation is difficult, and not always successful even when there is a viable opportunity.

If we set up a wall between R&D activity and other activities, then that creates a barrier that potentially makes commercialisation more difficult, and ultimately less likely to succeed.

**Q16 Q10** What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

The advantage is simplicity.

The disadvantage is the potential that it makes certain R&D activities less viable.

**Q17 Q11** What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

The advantage is simplicity.

The disadvantage is that some industries have very different overhead structures, so some will be less incentivised to invest in R&D.

**Q18 Q12** Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

Respondent skipped this question

**Q19 Q13** What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

Software often requires continuous improvement to remain viable. For example, a software product might be sold to a customer with a committed pipeline of new features to be added over time. It needs to be clear that the R&D required to enhance a product to remain competitive is included.

**Q20 Q14** Are there reasons why continuity rules should not apply to tax credits? Please describe.

Losses must be able to be carried forward, and investors should invest with full view of the tax position of their investment.

**Q21 Q15** Is the minimum threshold set at the right level?

Yes

**Q22 Q16** How important is a cap or a mechanism to go beyond the cap? Please provide further details.

We want to attract R&D activity to New Zealand, so there needs to be a mechanism to go beyond the cap.

**Q23 Q17** What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Ideally this should not become political - If a company feels that their position is at the whim of the political climate, then that may reduce the likelihood to invest.

**Q24 Q18** What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Respondent skipped this question



R & D Tax Incentive

**Q25** Q19 Are there any other risks that need to be managed? Please describe.

In some cases there could be a risk that public disclosure of where money is spent gives away some sensitive information. For example if a company is looking to enter a new market, and spends two years building up that capability, then disclosure of who they are contracting or how much they are spending could be valuable information for competitors.

**Q26** Q20 Are there risks with extending penalties to external advisors in this way?

Respondent skipped this question

**Q27** Q21 What is the right level of information required to support a claim?

Respondent skipped this question

**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Respondent skipped this question

**Q29** Q23 What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Yes

**Q31** Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

R&D tax incentives benefit companies if and when they make a profit. This is substantially less attractive than growth grants, where cash becomes available at the time of investment. This will materially affect the investment in R&D.

Released Consistent with the Official Information Act 1982

#68

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 3:00:39 PM  
**Last Modified:** Friday, June 01, 2018 3:36:37 PM  
**Time Spent:** 00:35:58  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:** Respondent skipped this question

**Q2 (ii) For organisations:**

Name of organisation: **Navico Auckland Limited**  
 Contact person name: s 9(2)(a)  
 Position:

**Q3 (iii) How long has your business been operating in New Zealand?** **10 years or more**

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** **100 or more**

**Q5 (v) What industry sector does your business operate in?** **F Wholesale trade**

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Growth Grant: **2015, 2016, 2017**

**Q7 (vii) Has your organisation ever received any other R&D government support?** **Yes,**  
 If yes, please specify names of grant(s)/support.:  
 Intern support from Callaghan Co funding from Callaghan

Page 3: Questions asked in the discussion document

**Q8 Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?** Respondent skipped this question

**Q9 Q2** How well does this definition apply to business R&D carried out in New Zealand?

We are very concerned that the definition of R&D only covers Research (R) and not Development (D).

The discussion paper indicates “the intention of the scheme is to give incentives for activities which resolve scientific or technological uncertainty”. To us this is far too narrow, because it would exclude development of new products (hardware or software) based on previously understood technology.

The tax incentive should be encouraging new product development because:

- o While they may not have technical unknowns that would fall into the narrow Frascati definition of R&D, they do include the requirement for technical skillsets that we should be trying to build in NZ for the good of the economy.
- o These developments have potential for significant economic benefit for New Zealand, but need incentives such as the tax incentive to offset the investment & commercial risk that a company must undertake to bring a new product to the market.

It will severely limit the amount of companies who will utilise and, even for those that do how much they can claim if the definition is made as narrow as it has been proposed.

**Q10 Q3** Does this definition exclude R&D that you think should be eligible, please illustrate with examples? **Respondent skipped this question**

**Q11 Q4** Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

Would like to see some examples of what is meant here. As noted above, if interpret it too narrowly then it could exclude much of the development portion of R&D. We do not believe this is the intention.

An example of what might be included is at least design-build-validate iterations which make up most of the development and based on scientific methods.

**Q12 Q5** What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology? **Respondent skipped this question**

**Q13 Q7** Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe. **Respondent skipped this question**

**Q14 Q8** Please provide any examples where social science research is/has been a core part of business R&D in New Zealand? **Respondent skipped this question**

**Q15 Q9** What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

If the US type of definition is used where research is excluded once commercial production commences this would not have an undue impact and arguable be in line with the Growth Grant definitions. Would need to see examples of where bright line test is as most R&D will relates in a saleable product e.g. prototypes, validation units etc?

## R & D Tax Incentive

**Q16** Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

Respondent skipped this question

**Q17** Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Respondent skipped this question

**Q18** Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

Respondent skipped this question

**Q19** Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

Depending on how the definition of R&D finishes up it should explicitly include the development of new software products.

**Q20** Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe.

Respondent skipped this question

**Q21** Q15 Is the minimum threshold set at the right level?

Respondent skipped this question

**Q22** Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.

Respondent skipped this question

**Q23** Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Respondent skipped this question

**Q24** Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Respondent skipped this question

**Q25** Q19 Are there any other risks that need to be managed? Please describe.

Respondent skipped this question

**Q26** Q20 Are there risks with extending penalties to external advisors in this way?

Respondent skipped this question

**Q27** Q21 What is the right level of information required to support a claim?

Respondent skipped this question

**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Respondent skipped this question

## R & D Tax Incentive

**Q29 Q23** What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

**Q30 Q24** Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Respondent skipped this question

**Q31 Q25** Please provide any other feedback you may have on the proposed R&D tax incentive here.

Our biggest issue is around the proposed definitions of Eligibility (page 14 of the proposal "will I be eligible").

In the proposal the Ministers' forward talks about wanting a diverse range of firms to be able to access the tax incentive encouraging business of all sizes and scales to undertake R&D in New Zealand and more broadly encourage new jobs and new ways of doing business. Furthermore the proposal states that the tax incentive should be as inclusive and accessible as possible and should avoid distorting the way businesses structure themselves. We believe that is why the Callaghan Growth Grant has basic eligibility criteria.

The requirements of having control over the R&D activities, bear the financial risk of the R&D activities and effectively own the results of the R&D will exclude many companies that are carrying out a high level of R&D as part of a global organisation, the very companies the proposal is purporting to attract.

Although it is clearly a benefit to encourage retaining control of R&D activities in NZ, it is not practical. We should encourage foreign investment in New Zealand's R&D by making New Zealand companies competitive on a global basis through schemes such as the tax incentive:

- o NZ has potential to be attractive to global organisations looking for cost-effective development due to lifestyle, availability to highly educated English speaking work-force, timezone proximity to Asia etc.
- o R&D activities within larger global organisations often provide skillsets and access to resources that are not available to NZ based companies
- o R&D activities within larger global organisations build the skillset and critical mass of NZ's technology industry. Without foreign investment we will simply be too small.

Navico Auckland operates as a captive service provider whereby we provide R&D services for the Navico Global group and are paid via a cost plus model (in line with transfer pricing guidelines). Navico Auckland does not own the R&D or is exposed to the success or failure of any particular project. But Navico Auckland still provides many benefits to the NZ economy such as:

1. Continued employment/development of ~90 strong R&D team, and growth of the team in key areas.

We consider the employment/development of our R&D team as one of our most significant contributions to New Zealand. Engineers at Navico Auckland experience cutting edge technology development that is rare elsewhere in New Zealand. They are exposed to a global R&D team and share best practices with R&D personnel the US, UK, Norway, Russia, Italy & Mexico. Engineers travel regularly to Asia, US and Europe to work with suppliers on implementing new technologies.

All of this provides real world experience for our people that creates a net contribution to New Zealand's technology & Marine industry as those people move on and build and contribute to other organisations in New Zealand.

Further to this we also engage with New Zealand technology consultants & contractors.

The Navico Auckland R&D team has grown significantly over the past 4 years (from 66 to 87 full-time employees) and hope to see further investment in NZ

2. Continued employment/development of ~40 strong non-R&D personnel.

The presence of a large R&D team in Auckland also creates a critical mass that also keeps other functions in New Zealand.

## R & D Tax Incentive

Currently we employ 40 additional non-R&D staff in regional and global functions such as Sales, Service, Marketing, Product Management, Procurement and IT. The non R&D roles would all leave NZ without the R&D site, they only make sense & are credible due to the R&D presence.

### 3. Marine Electronics Industry Critical Mass

The commercial & marine knowledge at Navico is at a scale that is well beyond any other company in our Industry in New Zealand. Our success globally is highlighting New Zealand's talent and forcing other companies to invest in New Zealand. Three of the five major recreational marine electronics companies now have an R&D presence in NZ.

### 4. Encouraging, supporting and training young engineers.

- Sponsorship of University projects & supporting those projects by, for example, providing senior personnel to judge projects.
- Employment of Interns
- Employment of New Graduates
- Participation in Future-in-tech program to encourage young people to have a career in Engineering
- Hosting visits from local schools/universities to provide career insights

### 5. Collaboration with local companies involved in product development.

- Sharing of product development best practice.
- Making available specialised equipment for use by non-competing local companies (in the past this has included use of Navico's EMC lab, electronic test equipment and environment test equipment to companies such as Fusion electronics, e-Road and Invenco).
- Sourcing assistance. Taking advantage of Navico's global supply chain to assist local companies source commodities that would otherwise be difficult. In the past this has included helping e-Road and Invenco with sourcing of LCD panels.
- Support of local manufacturing. Navico has used local manufacturing for development builds and new product introduction builds on many products. More complex product (particularly radar) has historically been retained through production ramp and into full production.

### 6. New Zealand Inc.

Navico is a unique company in that we have no county headquarters so investment in R&D is based on return. Several countries where we have operations (Norway, UK, USA, Mexico, China, Russia ) are competing directly with NZ for access to this investment. Most of the technologies have parallels or applications not only in consumer and industrial technology, but also tangential applications in homeland security, so this is a focus internationally for govt. investment.

These types of advantages are in danger of being limited or lost if proper support is not available and eligibility criteria is set to narrowly. The amount of tax incentive claimed is still limited by the amount of eligible R&D expenditure and the profitability of the local entity.

# #42

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Thursday, May 31, 2018 4:27:12 PM  
**Last Modified:** Friday, June 01, 2018 3:46:37 PM  
**Time Spent:** 23:19:24  
**IP Address:** s 9(2)(a)

Page 2

**Q1 (i) For individuals**

Respondent skipped this question

**Q2 (ii) For organisations**

Name of organisation  
 Contact person name  
 Position

**Navico Auckland Limited**  
 s 9(2)(a)

**Q3 (iii) How long has your business been operating in New Zealand?**

**10 years or more**

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.**

**100 or more**

**Q5 (v) What industry sector does your business operate in?**

**Wholesale trade**

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Growth Grant

**2017**

**Q7 (vii) Has your organisation ever received any other R&D government support?**

**Yes,**  
 If yes, please specify names of grant(s)/support.:  
 Student Interns - Callaghan

**Q8 How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.)**

**Very unlikely**

**Q9** How much R&D does your organisation expect to carry out in the coming year?

s 9(2)(b)  
(ii)

Page 3: Responses to questions in the consultation document

**Q10 Q1** What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

Respondent skipped this question

**Q11 Q2** What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

The proposed transition period to 31 March 2020 is acceptable as it gives firms enough time to prepare for the change. Especially those already receiving a Growth Grant but will receive much less under the new R&D tax incentive.

**Q12 Q3** What impact will the proposed transition arrangements have on your R&D programme over the next few years?

If the transition rules stay as they are then should be minimal.

**Q13 Q4** Please provide any other comments about the proposed transition arrangements.

Respondent skipped this question

**Q14 Q5** For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

The Growth Grant will be significant for us over the transition period as any funding under the R&D Tax Incentive is forecast to be 10% of the current Growth Grant funding.

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#63

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 2:44:15 PM  
**Last Modified:** Friday, June 01, 2018 2:50:45 PM  
**Time Spent:** 00:06:29  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:** Respondent skipped this question

**Q2 (ii) For organisations:**

Name of organisation: **Team New Zealand Limited**  
 Contact person name: s 9(2)(a)  
 Position: [Redacted]

**Q3 (iii) How long has your business been operating in New Zealand?** **10 years or more**

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** **50 - 99**

**Q5 (v) What industry sector does your business operate in?** **C Manufacturing**

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Growth Grant: **2016, 2017**

**Q7 (vii) Has your organisation ever received any other R&D government support?** **No**

Page 3: Questions asked in the discussion document

**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

Not applicable to Team New Zealand Limited ("TNZL")

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**Q9 Q2** How well does this definition apply to business R&D carried out in New Zealand?

TNZL's R&D activities would appear, on the face of it, to meet this definition. However further information, including an interpretation from our tax auditors which would be at TNZL's expense, would be required before TNZL could be confident that all of TNZL's R&D meets the new definition.

**Q10 Q3** Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

Please refer to TNZL's answer to Q2.

**Q11 Q4** Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

TNZL is uncertain whether valid R&D could be excluded under the proposed definition. TNZL has invested considerable time and cost, both internal and external, in developing a reporting system that meets NZ IAS38. TNZL is concerned that the proposed scheme would require additional time and cost to redevelop TNZL's reporting systems to comply with the new definition.

**Q12 Q5** What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

TNZL, on the face of it, sees no negative or positive impact to TNZL's R&D from the application of the materiality test.

**Q13 Q7** Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

TNZL is comfortable with the exclusions being applied to support as well as core activities.

**Q14 Q8** Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

Not applicable to TNZL.

**Q15 Q9** What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

TNZL believes that this will result in additional compliance cost and potentially a reduction in R&D activities due to the high likelihood in dual purpose activities as a result of normally carrying on business. TNZL believes a more equitable approach would be to apportion costs between R&D and non-R&D activities and treat the portion relating to R&D activities as eligible R&D.

**Q16 Q10** What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

While limiting eligible expenditure to R&D labour costs would simplify the reporting process TNZL believes it ignores the inherent nature of doing R&D activities which require additional resources, in the form of dedicated facilities and equipment, as well as other overheads in order for R&D activities to be performed

**Q17 Q11** What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

TNZL believes overhead costs are unique to a particular business, based on the facilities required for its R&D as well as the phase the R&D activities are at. TNZL believes that these costs cannot be determined arbitrarily.

**Q18 Q12** Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

TNZL believes that the tax incentive should be adjusted for any taxable commercial consideration received but only once the consideration is deemed to have been received under current income tax legislation. TNZL believes no allowance should be made for commercial consideration that could be reasonably expected to be received until such time as it is received.

**Q19 Q13** What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

Not applicable to TNZL.

**Q20 Q14** Are there reasons why continuity rules should not apply to tax credits? Please describe.

Not applicable to TNZL.

**Q21 Q15** Is the minimum threshold set at the right level?

Yes

**Q22 Q16** How important is a cap or a mechanism to go beyond the cap? Please provide further details.

Not applicable to TNZL.

**Q23 Q17** What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Not applicable to TNZL.

**Q24 Q18** What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

TNZL has some concerns that the two year lag may not be sufficient to protect the business' commercially sensitive activities.

**Q25 Q19** Are there any other risks that need to be managed? Please describe.

TNZL is not aware of any other risks associated with its R&D activities.

**Q26 Q20** Are there risks with extending penalties to external advisors in this way?

TNZL is not aware of any risks to its business with this approach.

R & D Tax Incentive

**Q27** Q21 What is the right level of information required to support a claim?

TNZL believes the current level of reporting required under the Growth Grants scheme to be sufficient.

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**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

TNZL are not aware of any currently available software solutions.

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**Q29** Q23 What integrity measures do you think Inland Revenue should use?

TNZL believe that the proposed integrity measures would suffice.

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**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process? **No**

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**Q31** Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here. **Respondent skipped this question**

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#70

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 3:28:46 PM  
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**IP Address:** 103.16.22.253

Page 2: Your contact details

**Q1 (i)** For individuals:

Respondent skipped this question

**Q2 (ii)** For organisations:

Name of organisation

CerebralFix Limited

Contact person name

s 9(2)(a)

Position

**Q3 (iii)** How long has your business been operating in New Zealand?

6 to less than 10 years

**Q4 (iv)** How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.

50 - 99

**Q5 (v)** What industry sector does your business operate in?

J Information media &amp;

**Q6 (vi)** Has your organisation ever received a R&D project or R&D growth grant?

R&amp;D Project Grant

2012, 2013

R&amp;D Growth Grant

2014, 2015, 2016, 2017

**Q7 (vii)** Has your organisation ever received any other R&D government support?

Yes,

If yes, please specify names of grant(s)/support.:

Build for Speed Deep Dive process with Hypr Innovation Limited

Page 3: Questions asked in the discussion document

**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

N/A

**Q9 Q2** How well does this definition apply to business R&D carried out in New Zealand?

This definition is vague towards software development. It would be preferable to have a more specific definition for the software industry, as this is vastly different to traditional manufacturing R&D definitions.

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**Q10 Q3** Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

Yes, software development. It is unclear as to which areas of software development cover R&D.

All software at CerebralFix is built using Lean philosophies, and hypothesis driven development.

Practicing Hypothesis-Driven Development is thinking about the development of new ideas, products and services + even organisational change – as a series of experiments to determine whether an expected outcome will be achieved. The process is iterated upon until a desirable outcome is obtained or the idea is determined to be not viable.

Our mindset is to view our proposed solution to a problem statement as a hypothesis, especially in new product or service development – being the market we are targeting, how a business model will work, how code will execute and even how the customer will use it.

Customer discovery and Lean Startup strategies are designed to test assumptions about customers. Quality Assurance is testing system behavior against defined specifications.

The key outcome of an experimental approach is measurable evidence and learning.

Learning is the information we have gained from conducting the experiment. Did what we expect to occur actually happen? If not, what did and how does that inform what we should do next?

In order to learn we need use the scientific method for investigating phenomena, acquiring new knowledge, and correcting and integrating previous knowledge back into our thinking.

As the software development industry continues it has matured. We now leverage improved capabilities such as Continuous Design and Delivery to maximise our potential to learn quickly what works and what does not. By taking an experimental approach to information discovery, we can more rapidly test our solutions against the problems we have identified in the products or services we are attempting to build. With the goal to optimise our effectiveness of solving the right problems, over simply becoming a feature factory by continually building solutions.

The steps of the scientific method are to:

1. Make observations
  2. Formulate a hypothesis
  3. Design an experiment to test the hypothesis
  4. State the indicators to evaluate if the experiment has succeeded
  5. Conduct the experiment
  6. Evaluate the results of the experiment
  7. Accept or reject the hypothesis
  8. If necessary, make and test a new hypothesis
-

**Q11 Q4** Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

Yes. Examples of software R&D that should be included:

- Continuous design & delivery
- Automated testing
- Lean & agile methodology
- Usability studies
- Design thinking
- Lean UX/UI

**Q12 Q5** What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

This would reduce innovation in the software sector as the majority of R&D happens with lean and agile processes, meaning products are quickly iterated and improved based on real user feedback. This means a product can be released to the public and continue to be R&D until the point where hypothesis are validated. For the software industry, the majority of hypothesis can't be solved internally without real user feedback.

The materiality test does not allow for this type of R&D.

QUESTION 6:

6. How well does this definition apply to business R&D carried out in New Zealand?

Supporting activities (covered by paragraph b of the proposed definition) are activities that are part of the R&D project but are not conducted using a scientific method or do not advance science or technology themselves, for example, literature searches.

Callaghan has a wealth of information regarding how R&D can be interpreted under the existing framework, which includes grey areas such as supporting activities.

The challenge we have answering this question, and other questions within this document, is that we have very limited information around the Frascati methodology and examples on how it can potentially work in practice for software organisations.

In order to achieve meaningful dialogue, we believe there needed to be more relevant information provided to explain the dimensions of the proposed Frascati methodology and the potential impacts this would have for the software industry.

**Q13 Q7** Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

Respondent skipped this question

**Q14 Q8** Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

Social science research is core to all software organisations producing content. We use social science in a variety of ways to experiment, test and validate within live digital environments around the world. We use social science to validate whether our hypothesis are being met. Social science research is performed through the likes of usability testing and community management.

**Q15 Q9** What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

We are looking for guidance in this instance as there is no clear definition around this. Our products move through from ideation through to live products, and it is unclear where the cut-off is for R&D and a live product. We believe R&D is ongoing for all software organisations producing live product. The lifecycle of software product is continual and cannot be compared to a typical widget which has a clear start and end.

For example, we will use R&D that a potential product will evolve from. We will use design thinking and latest methodologies to experiment, test, validate within live digital environments around the world. We will then produce a minimum viable product (MVP) and again this will be subject to testing and experimentation. This results in the first software release v1.0. The cycle of continuous learning and R&D is explored within V1.0. Even at the V1.0 stage, this product may not have been scaled and can still be discarded.

**Q16 Q10** What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

Advantages

- Would make calculations simple as we already have time tracking setup from the Callaghan Growth Grant. This time tracking allows us to separate R&D related work from our client work-for-hire projects.

Disadvantages

- Inaccurate claim value: the claim percentage would need to be increased to account for the overheads and direct costs associated to the R&D activity. As long as the rate reflects a fair value of overheads then this would be a more simple and a preferred method of calculation.

\* Our current wage to overhead calculation is 60% of wages & 40% overheads

\* Assuming the 12.5% rate was used for both wages and overheads, the rate would need to be ~21% of labour costs to make up for the lost OH costs associated to the R&D

- If we cannot claim overheads via an increased rate, this will make our R&D activities more costly to operate. This would inevitably mean there will be much less incentive to invest in R&D.

**Q17 Q11** What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Advantages

- This would make calculations of overhead simple

Disadvantages

- The rate may not reflect the actual overhead spend for our company, therefore R&D activities would have a higher operating cost to usual. There would be less incentive to focus on R&D.

**Q18 Q12** Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

Our products move from the ideation stage through to live products. When a product is released it is still undergoing R&D related activities, where we use design thinking and the latest methodologies to experiment, test and validate. When a product is live, there is a small amount of consideration received from users. At this point the product is still in a period of loss-making and has not been fully commercialised. However, the cycle of continuous learning and R&D continues after this point. The product may not have been scaled and can still be discarded.



**Q19 Q13** What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

- Continuous design & delivery
- Automated testing
- Lean & agile methodology
- Lean UX/UI
- Usability
- Design thinking

Please also refer to points related to above questions.

**Q20 Q14** Are there reasons why continuity rules should not apply to tax credits? Please describe.

The R&D is part of the capability of any technology business. As with any business there are risks taken, but the capability through extension of R&D is critical to the future partners that will be attracted. Partners/investors are not attracted just because of cash and share distribution, but because of the value they could add into R&D and software development. Our view is tax credits should not be linked to any continuity rules as we can't see the logical argument for it.

**Q21 Q15** Is the minimum threshold set at the right level? **Yes**

**Q22 Q16** How important is a cap or a mechanism to go beyond the cap? Please provide further details.

We don't understand the pros and cons. Based on the information received the general feel is that large companies are benefiting disproportionately to smaller companies.

**Q23 Q17** What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Based on the information received the general feel is that large companies are benefiting disproportionately to smaller companies.

A pre-registration process should happen for all companies. This would give companies certainty that their R&D spending is feasible and R&D would not be denied at the end of the period.

**Q24 Q18** What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Respondent skipped this question

**Q25 Q19** Are there any other risks that need to be managed? Please describe.

Respondent skipped this question

**Q26 Q20** Are there risks with extending penalties to external advisors in this way?

Respondent skipped this question

**Q27 Q21** What is the right level of information required to support a claim?

Same as what is currently required for Callaghan claims.

R & D Tax Incentive

**Q28** Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software? **Respondent skipped this question**

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**Q29** Q23 What integrity measures do you think Inland Revenue should use? **Respondent skipped this question**

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**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process? **Yes**

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## R & D Tax Incentive

**Q31 Q25** Please provide any other feedback you may have on the proposed R&D tax incentive here.

1. There is a lack of information regarding software R&D and potential interpretation within the consultative document. This results in our feedback being wide-ranging and not affording the opportunity for more meaningful dialogue based on the goals and objectives of moving to the tax incentive system.
2. Technology businesses have built up many years of relationships with Callaghan sector and account managers who have real-world experience in interpreting the current guidelines and guiding, nurturing and networking the R&D ecosystem within New Zealand. We feel that splitting these roles and responsibilities between the IRD and Callaghan will significantly dilute the effectiveness of the value add that Callaghan brings to the table.
3. The lack of upfront information leaves grey areas and confusion regarding the interpretation of the Frascati R&D methodology. There is a real risk to business that R&D will be undertaken and retrospectively challenged by the IRD/MBIE. This results in business being unable to plan and take risks in terms of bringing direct economic impact to New Zealand INC.
4. The processes and controls have yet to be formulated by the IRD/MBIE. We are concerned there is a potential of conflict of interest between Callaghan whose mission is to grow business as opposed to the IRD, whose mission is to maximise tax collection revenues.
5. The workshops we have had involvement in also highlight this issue. No policy makers have been involved in discussions that have subject matter expertise in technology and the positive and negative implications of the Frascati method.
6. There is a grey area on the overall benefit. The current figure proposed of 12.5% is significantly less than the current 20%. We do understand there are counter arguments of the true 20%, but regardless of this it will still be a significant reduction in R&D support to New Zealand business. We feel CerebralFix demonstrates a successful case study regarding turnover which has grown by over 300% and many jobs provided direct economic impact to NEw Zealand. The result of the reduced support and uncertainty around how the process will work will mean that our growth plans and increment and significant plan spend for R&D, particularly on the West Coast, is under direct threat. We understand the goal is to make support accessible to more New Zealand businesses, but we have not seen any information that clearly articulates the benefit to New Zealand as a whole. We would like to see a clear case demonstrating how the new tax credit system does not dilute and will produce better results in terms of R&D, innovation, and growth to New Zealand
7. We understand that MBIE & IRD are looking to implement a non-compulsory pre-approval process before R&D claims are submitted to ascertain whether the R&D is covered. We understand this would be on a company-wide basis, not a project basis. We believe there are pros and cons to this approach, however without prior information it is difficult to gauge the practicality of this. There are large challenges that MBIE/IRD/Callaghan will be facing in terms of organisational change, let alone the impact of all parties understanding the implications of the new R&D guidelines and the interpretation on a practical level.
8. Without a clear line of sight between Callaghan and the IRD, we are concerned that we will lose the value-add that Callaghan brings in terms of advice and networking regarding new business opportunities that can be collaboratively or individually pursued. The IRD will be another non-value add, but an incredibly important influencer that can create roadblocks to growth through confusion of the interpretation of the tax incentive. Quite frankly, it is not their area of expertise.

After our discussion with MBIE/IRD, we have the following concerns about the proposed changes:

1. MBIE & IRD confirmed that when R&D claims are submitted to the IRD, the IRD would need a competent professional to analyse that this is a hard problem to solve and we actually are solving a problem that isn't already solved/available in the world.
2. MBIE & IRD suggested there was an issue around both understanding and deciding where commercialisation of R&D projects begin and end.
3. We understand that MBIE & IRD are looking to implement a non-compulsory pre-approval process before R&D claims are submitted to ascertain whether the R&D is covered. We understand this would be on a company-wide basis, not a project basis.

# #43

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Friday, June 01, 2018 3:58:51 PM  
**Last Modified:** Friday, June 01, 2018 4:04:12 PM  
**Time Spent:** 00:05:20  
**IP Address:** s 9(2)(a)

Page 2

**Q1 (i) For individuals**

Respondent skipped this question

**Q2 (ii) For organisations**

Name of organisation: **CerebralFix Ltd**  
 Contact person name: s 9(2)(a)  
 Position:

**Q3 (iii) How long has your business been operating in New Zealand?**

**6 to less than 10 years**

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.**

**50 – 99**

**Q5 (v) What industry sector does your business operate in?**

**Information media &**

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Project Grant: **2013**  
 R&D Growth Grant: **2017**

**Q7 (vii) Has your organisation ever received any other R&D government support?**

**Yes**

**Q8** How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.)

**Likely**

**Q9** How much R&D does your organisation expect to carry out in the coming year?

s 9(2)(ba)(ii)

**Q10 Q1** What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

Cashflow

§ 9(2)(b)(ii)

- Potential R&D projects will be put on hold until we have certainty around 31/3/20 onwards
- We were looking to employ up to 10 new staff in Westport on R&D projects, however there is little clarity around our cashflow or whether this project meets current proposed R&D definitions, so has been put on hold. The cost to Westport is ~\$2.05m

Account Management - Technology expertise

- Losing our main point of contact with Callaghan will mean there is a significant loss of understanding of our business and R&D activity to date. There is a significant risk to our business that some items may not be claimable due to a lack of expertise within the IRD

**Q11 Q2** What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

The initial Growth Grant requires a five year forecast with direct economic impact. Our business planning looks three to five years ahead. The uncertainty of where the proposal actually is, means it puts our planning at risk given it's only going to be one year before the March 2020 before anything is finalised. Therefore, we would expect realistically to have certainty through two rollovers of the two years to fulfill our business plan, that way the tax incentive scheme can be onboarded with new businesses and existing businesses can learn from those implementation challenges and not lose momentum with their R&D programs.

To summarise, we recommend the scheme is targeted initially at new businesses that are currently not part of the Callaghan Growth Grant. This way a practical assessment can be carried out of the direct economic impact of the two schemes. At this stage. I.e. after two rollovers, migrate to the proven methodology.

**Q12 Q3** What impact will the proposed transition arrangements have on your R&D programme over the next few years?

In addition to the previous points, this will force us to consider R&D activities offshore.

**Q13 Q4** Please provide any other comments about the proposed transition arrangements.

Automatic Growth Grant Extensions

- Our current Growth Grant expires 30/9/19. We understand from our conference call with MBIE, IRD and Callaghan that our Growth Grant will automatically extend from 1/10/19 to 31/3/20 to cover the remaining period that would have otherwise been extended by Callaghan.

Audits

- During the Callaghan onboarding process we had to go through an audit process. Will this happen again through the new system with IRD? We understand this hasn't been confirmed outside of 'random' audits. Will there be any further mandatory audits in the future? This is a costly process for many businesses.

**Q14 Q5** For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

N/A

#5

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Thursday, April 19, 2018 10:24:11 AM  
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**Time Spent:** 00:27:43  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i)** For individuals:

Email address

s 9(2)(a)

**Q2 (ii)** For organisations:

Name of organisation

AgriHealth NZ

Contact person name

s 9(2)(a)

Position

**Q3 (iii)** How long has your business been operating in New Zealand?6 to less than 10  
years**Q4 (iv)** How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.10 -  
19**Q5 (v)** What industry sector does your business operate in?A Agriculture, forestry, &  
fishing**Q6 (vi)** Has your organisation ever received a R&D project or R&D growth grant?

R&amp;D Project Grant

None

R&amp;D Growth Grant

None

**Q7 (vii)** Has your organisation ever received any other R&D government support?

No

Page 3: Questions asked in the discussion document

**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

nil

**Q9** Q2 How well does this definition apply to business R&D carried out in New Zealand?

OK, except it would be preferable to limit overseas owned businesses from claiming tax credit when their tax paid to NZ Government is low (as NZ Inc should be advantaged by this tax credit, not overseas business owners / other tax jurisdictions).

**Q10** Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples? **Respondent skipped this question**

**Q11** Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples? **Respondent skipped this question**

**Q12** Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

good idea

**Q13** Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

core activities only is preferable

**Q14** Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand? **Respondent skipped this question**

**Q15** Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe. **Respondent skipped this question**

**Q16** Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

Advantage is the tax credits should be lower and more valid

**Q17** Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Advantage is the tax credits should be lower and more valid

**Q18** Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe. **Respondent skipped this question**

**Q19 Q13** What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

Alleged R&D spend on software is often business system upgrades rather than genuine R&D so the definition for valid R&D expenditure on software should be framed extremely carefully, or even excluded, as net advantage to NZ Inc may not occur

**Q20 Q14** Are there reasons why continuity rules should not apply to tax credits? Please describe.

It would be preferable to prevent overseas owned businesses from rolling R&D tax credits forward, as very little advantage to NZ Inc

**Q21 Q15** Is the minimum threshold set at the right level? **Yes**

**Q22 Q16** How important is a cap or a mechanism to go beyond the cap? Please provide further details.

A mechanism should be available (as otherwise large businesses will restructure affairs to work around the rules anyway)

**Q23 Q17** What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

clear guidelines and expectations, transparency, consistency, speed

**Q24 Q18** What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

transparency is a critical feature.

Overseas owned companies claiming R&D tax credits should also be required to publish actual tax paid to IRD annually as part of the scheme

**Q25 Q19** Are there any other risks that need to be managed? Please describe.

Net benefit to NZ Inc is the most important feature. An improvement on current system is required in this area.

**Q26 Q20** Are there risks with extending penalties to external advisors in this way?

no

**Q27 Q21** What is the right level of information required to support a claim?

Relatively low amount of information and compliance sufficient,

**Q28 Q22** What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Potentially a good idea.

Customers using Xero and similar could opt to enable access to IRD auditors for more efficient auditing to ensure compliance?



**Q29** Q23 What integrity measures do you think Inland Revenue should use?

Company Directors / CEO to complete statutory declarations or similar when annual tax return is submitted to IRD. Companies audited every 5 to 7 years and case studies published of the audit findings and learnings

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**Q30** Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process? **Yes**

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**Q31** Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

The proposal is an improvement on current system.

Net benefit to NZ Inc is the most important feature. Need to balance companies overclaiming (eg software claimed as R&D when essentially system upgrade project) and transferring tax to overseas companies vs benefits of proposed scheme

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#6

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Thursday, April 19, 2018 10:47:35 AM  
**Last Modified:** Thursday, April 19, 2018 11:38:32 AM  
**Time Spent:** 00:50:57  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:**

Name s 9(2)(a)  
 Email address s 9(2)(a)

**Q2 (ii) For organisations:**

Name of organisation CTAS NZ Ltd  
 Contact person name s 9(2)(a)  
 Position s 9(2)(a)

**Q3 (iii) How long has your business been operating in New Zealand?** 10 years or more**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** 1 - 5**Q5 (v) What industry sector does your business operate in?** J Information media &**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&amp;D Project Grant None

R&amp;D Growth Grant None

**Q7 (vii) Has your organisation ever received any other R&D government support?** No

Page 3: Questions asked in the discussion document

**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

More available for private industry

**Q9 Q2** How well does this definition apply to business R&D carried out in New Zealand?

I consider the definition, particularly (a) is simply a concoction of words to make it sound futuristic and bewildering to average businesses. Take for example the overall sentence without all the extra words, and you get a phrase like: conducted using scientific methods... through the resolution of scientific or technological uncertainty. It basically says nothing.

**Q10 Q3** Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

Yes. There are a few examples of businesses that have launched worldwide, and achieved huge success. These do not represent the majority of businesses in NZ, who are the source of employment opportunities for NZ'rs.

R&D should include the following types of business: Development of activities that show NZ to the world, help other businesses to grow, create employment within NZ, create opportunities for youth, use existing technologies to create new service.

**Q11 Q4** Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

Yes. Science is something that limits a large number of businesses, and if successful, often ends up benefiting other countries. Much R&D is done using computer technology, and this is not a direct input into scientific developments.

**Q12 Q5** What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

I don't believe "materiality" can be measured.

**Q13 Q7** Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

No, as long as a development funding can be separated from demonstration and trial runs.

**Q14 Q8** Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

Sorry, don't know.

**Q15 Q9** What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

It may prevent businesses from misusing funds. I feel there is a need to consider a business may take an existing product or service, and redevelop in an R&D manner to significantly enhance/replace. But the funding should be separate in these cases. This is not hard to do. We need to consider the requirement to build on good ideas. The best developments are not all new ideas.

**Q16 Q10** What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

This is a disadvantage, particularly in small business, where the owner may be doing much of the development at no cost. There are often equipment costs, eg titanium, cabling, computers/laptops, development software, making high tensile brackets etc.

## R & D Tax Incentive

**Q17 Q11** What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

I don't believe overhead costs should be eligible for R&D. A business doing R&D, should be able to sustain its own overheads.

**Q18 Q12** Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

Yes. Any business needs to receive income to be able to survive and grow. If it can't survive, it can't carry out R&D.

**Q19 Q13** What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

Software IDE costs, version upgrades for 3rd party software, Testing, Development Hardware environment, Multiple devices eg Chrome & FF, Documentation.

**Q20 Q14** Are there reasons why continuity rules should not apply to tax credits? Please describe.

No Comment

**Q21 Q15** Is the minimum threshold set at the right level?

**No,**

If 'no', please provide further details.

I feel that small business may benefit with small R&D funding, and may sometimes actually achieve more for NZ than large businesses who receive large amounts of funding.

**Q22 Q16** How important is a cap or a mechanism to go beyond the cap? Please provide further details.

Caps are important to reduce misuse. Large businesses are not necessarily better at R&D, but they may be better at making a case for it.

**Q23 Q17** What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Having an unbiased external working group to consider any waive.

**Q24 Q18** What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

No comment

**Q25 Q19** Are there any other risks that need to be managed? Please describe.

Large companies using this too much

R & D Tax Incentive

**Q26 Q20** Are there risks with extending penalties to external advisors in this way?

No comment

**Q27 Q21** What is the right level of information required to support a claim?

I think any R&D will vary in the level of information. So it needs detail relevant to the subject. It should justify how it helps NZ'rs, and how it can be sustainable ongoing.

**Q28 Q22** What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Not sure

**Q29 Q23** What integrity measures do you think Inland Revenue should use?

Should be based on the amount of funding.

**Q30 Q24** Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Yes,

Contact details:

s 9(2)(a)

**Q31 Q25** Please provide any other feedback you may have on the proposed R&D tax incentive here.

I would like to see better use of R&D in small business. Large businesses are more likely to use and then abort new ideas if they don't make a lot of money. Also, with the large amount of outsourcing and contracting, large businesses have basically accepted that skills are not necessarily within. Small businesses could potentially achieve more for less.

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#7

**COMPLETE**

**Collector:** Web Link 1 (Web Link)  
**Started:** Thursday, April 19, 2018 1:15:47 PM  
**Last Modified:** Thursday, April 19, 2018 1:44:00 PM  
**Time Spent:** 00:28:13  
**IP Address:** s 9(2)(a)

Page 2: Your contact details

**Q1 (i) For individuals:**

Name s 9(2)(a)  
 Email address

**Q2 (ii) For organisations:**

Name of organisation **Brush Technology**  
 Contact person name s 9(2)(a)  
 Position

**Q3 (iii) How long has your business been operating in New Zealand?** 10 years or more

**Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.** 6 - 9

**Q5 (v) What industry sector does your business operate in?** M Professional, scientific, & technical

**Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?**

R&D Project Grant 2016

**Q7 (vii) Has your organisation ever received any other R&D government support?** No

Page 3: Questions asked in the discussion document

**Q8 Q1** If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand? Respondent skipped this question

## R & D Tax Incentive

<b>Q9</b> Q2 How well does this definition apply to business R&D carried out in New Zealand?	Respondent skipped this question
<b>Q10</b> Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?	Respondent skipped this question
<b>Q11</b> Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?	Respondent skipped this question
<b>Q12</b> Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?	Respondent skipped this question
<b>Q13</b> Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.	Respondent skipped this question
<b>Q14</b> Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?	Respondent skipped this question
<b>Q15</b> Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.	Respondent skipped this question
<b>Q16</b> Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.	Respondent skipped this question
<b>Q17</b> Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.	Respondent skipped this question
<b>Q18</b> Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.	Respondent skipped this question
<b>Q19</b> Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?	Respondent skipped this question
<b>Q20</b> Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe.	Respondent skipped this question

## R & D Tax Incentive

**Q21** Q15 Is the minimum threshold set at the right level?

**No,**

If 'no', please provide further details.:

Yes. Our core business is R&D design services for the Internet of Things in New Zealand worth half a million dollars a year. Most of our clients are start-up clients or established businesses producing new R&D products. But most of them would be ineligible by your definition because of your requirement of \$100,000 spend/year. But they should be eligible. The problem is that most of our clients spend between \$30,000 and \$150,000 on the project. But the larger projects are often split across multiple years. This puts almost all of them under your \$100,000 limit. Your figures is crippling for start-up companies. These companies often need to get a \$30,000 proof-of-concept out there for a year and then form it into a full \$90,000 product next year. We think you should reduce the limit to \$20,000 or remove it completely. NZ has always been a country to support small business. But this new scheme favours big business, and thus disadvantages small businesses and start-ups. Examples include: - Methane refinery product R&D to measure pipe expansion for safety. - Bee hive remote monitoring equipment - Bronchoscopy Simulator for training - Flight-time tracking / monitoring product for safety of small aircraft that often slip under the regulatory 'radar'. - Predator luring and trapping designs. - Many others. We feel that our typical start-up clients should be able claim the new R&D tax incentives, but they can't because of your limit.

**Q22** Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.

**Respondent skipped this question**

**Q23** Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

**Respondent skipped this question**

**Q24** Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

**Respondent skipped this question**

**Q25** Q19 Are there any other risks that need to be managed? Please describe.

**Respondent skipped this question**

**Q26** Q20 Are there risks with extending penalties to external advisors in this way?

**Respondent skipped this question**



R & D Tax Incentive

**Q27 Q21** What is the right level of information required to support a claim?

Reducing Administration time is absolutely essential.

For this reason, it should be acceptable to submit a single standard report from an accounting system such as Xero.

This would reduce admin overhead for both the person applying and the person receiving the application.

You should aim to make it possible to submit a claim monthly in under half an hour.

**Q28 Q22** What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Respondent skipped this question

**Q29 Q23** What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

**Q30 Q24** Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Yes,

Contact details:

s 9(2)(a)

**Q31 Q25** Please provide any other feedback you may have on the proposed R&D tax incentive here.

Respondent skipped this question

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